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**BEFORE THE PUBLIC UTILITIES COMMISSION**  
**OF THE STATE OF CALIFORNIA**

Application of California-American Water  
Company (U210W) for Authorization to Increase  
its Revenues for Water Service by \$55,771,300 or  
18.71% in the year 2024, by \$19,565,300 or 5.50%  
in the year 2025, and by \$19,892,400 or 5.30% in  
the year 2026.

Application 22-07-XXX

**DIRECT TESTIMONY OF JEFFREY T. LINAM**  
**(FINAL APPLICATION)**

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Dated: July 1, 2022

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1                                   **BEFORE THE PUBLIC UTILITIES COMMISSION**  
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3  
4       Application of California-American Water  
5       Company (U210W) for Authorization to Increase  
6       its Revenues for Water Service by \$55,771,300 or  
7       18.71% in the year 2024, by \$19,565,300 or  
8       5.50% in the year 2025, and by \$19,892,400 or  
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Application 22-07-XXX

10                                   **DIRECT TESTIMONY OF JEFFREY T. LINAM**  
11                                   **(FINAL APPLICATION)**

12       **I.       INTRODUCTION**

13       Q1.     Please state your name and business address.

14       A1.     My name is Jeffrey T. Linam and my business address is 655 W. Broadway, Suite 1410,  
15               San Diego, CA 92101.

16       Q2.     By whom are you employed and in what capacity?

17       A2.     I am employed by California-American Water Company (“California American Water”  
18               or the “Company”) as the Senior Director of Rates.

19  
20       Q3.     What are your responsibilities?

21       A3.     I am responsible for overseeing the preparation, filing and processing of all requests for  
22               rate adjustment, financing, acquisition or any other applications before the California  
23               Public Utilities Commission (the “Commission”) and the Hawaii Public Utilities  
24               Commission.

25  
26       Q4.     Briefly describe your educational background.

27       A4.     I received a Bachelor of Arts degree from Claremont McKenna College with a dual major  
28               in Mathematics and Economics. I received a Master’s in Business Administration

1 (“MBA”) from the Anderson School at the University of California, Los Angeles  
2 (“UCLA”). I am a Certified Public Accountant (“CPA”) in California and a Certified  
3 Management Accountant (“CMA”). I am also a member of the American Institute of  
4 Certified Public Accountants (“AICPA”).  
5

6 Q5. Please describe your professional experience.

7 A5. I have been employed by California American Water since October 2009 as the Senior  
8 Director of Finance and more recently as the Senior Director of Rates and Regulatory. I  
9 have recently served on the Commission’s Low Income Oversight Board as the water  
10 representative. Prior to joining California American Water, I worked for Sempra Energy  
11 and its regulated subsidiaries San Diego Gas and Electric Company (“SDG&E”) and  
12 Southern California Gas Company (“SoCalGas”) for 15 years. The various positions I  
13 held with Sempra Energy are: Internal Auditor, Accounting and Finance Department for  
14 SoCalGas – 1994; Regulatory Case Administrator, Regulatory Affairs Department for  
15 SoCalGas – 1995 through 1998; Business Planning Manager, Customer Services  
16 Department for SoCalGas – 1998 through 2002; Manager of Financial Planning and  
17 Analysis, Accounting and Finance Department for SDG&E and SoCalGas – 2002  
18 through 2007; and Director of Mergers and Acquisitions for Sempra Energy – 2007  
19 through 2009. Prior to my employment with Sempra Energy, I worked in management  
20 consulting and public accounting.  
21

22 Q6. Have you testified before any regulatory agencies?

23 A6. Yes. I have testified before the Commission. For California American Water, I have  
24 testified in rate case proceedings, cost of capital proceedings, the Monterey Peninsula  
25 Water Supply Project (“MPWSP”) proceeding and Regional Desalination Project  
26 proceeding, and various other proceedings at the Commission. When I was an employee  
27 at SoCalGas, I testified in their Biennial Cost Allocation proceeding.  
28

1 **II. PURPOSE OF TESTIMONY**

2 Q7. What is the purpose of your testimony?

3 A7. The purpose of my testimony is to discuss and support various aspects of California  
4 American Water's 2022 statewide general rate case ("GRC").  
5

6 Q8. Briefly describe your responsibilities in this application.

7 A8. I have direct responsibility for most of the Special Requests ("SR") in this application,  
8 including many that support affordability, customer equity, conservation, rate clarity and  
9 simplification. In this application, California American Water proposes a limited number  
10 of new requests, including requests to address the elimination of the Water Revenue  
11 Adjustment Mechanism and Modified Cost Balancing Account ("WRAM/MCBA"). I  
12 discuss how the request and proposals in this application will coordinate with other  
13 closed or ongoing proceedings. I also discuss our coordination with outside consultant,  
14 David Mitchell of M-Cubed, who provides testimony on our sales forecast and rate  
15 design.  
16

17 My testimony starts with an explanation on the overall goals and objectives of the  
18 Application. It is then organized in the following manner:  
19

- 20 • SRs:
  - 21 ▪ Authorization of the Monterey-Style WRAM ("M-WRAM") (SR  
22 #1)
  - 23 ▪ Authorization of Full Cost Balancing Account ("FCBA") and  
24 Incremental Cost Balancing Account ("ICBA") (SR #2)
  - 25 ▪ Re-Authorization of Annual Consumption Adjustment Mechanism  
26 ("ACAM") (SR #3)
  - 27 ▪ Partial Consolidation of Transmission and Distribution Net Plant  
28 Costs (SR #4)

- Acquisition Revenue Requirement Normalization (SR #5)
  - Catastrophic Event Cost Impact Normalization (SR #6)
  - Acquisition Contingency Memorandum Account (SR #7)
  - Acquisition Transaction Cost Memorandum Account (SR #8)
  - Placer County Water Agency (“PCWA”) Capacity Cost Recovery (SR #9)
  - Rate Mitigation Plan for Recently Acquired Systems (SR #10)
  - Alignment of Operations and Expense Recovery (SR #11)
  - Subsequent Rate Changes (SR #12)
  - Monterey Wastewater Phase-In (SR #18)
- Coordination with Current and Pending California American Water Proceedings:
    - Cost of Capital – 2017 Cost of Capital (Decision (“D.”) 18-03-035); 2021 Cost of Capital (Application (“A”) 21-05-001)
    - Monterey Water Supply Proceedings – MPWSP Phase 2 (D.16-09-021) and Phase 1 (D.18-09-017); Pure Water Monterey Expansion (“PWM”) (A.21-11-024)
    - Acquisitions – East Pasadena (A.20-04-003, D.21-08-002); Bellflower (A.18-09-013); Warring (A.20-04-017); Bass Lake (A.22-03-002)
    - Rulemakings – Balanced Rates Order Instituting Rulemaking Phase 1 (D.14-10-047) and Phase 2 (D.16-12-026); Low Income Rate Assistance (“LIRA”) Rulemaking (R.17-06-024), Phase 1 (D.20-08-047); LIRA Phase 2 (D.21-07-029); Affordability Rulemaking (R.18-07-006), D.20-07-032; Public Safety Power Shut Off Rulemaking (R.18-12-005); Emergency Preparedness Rulemaking (R.15-06-009); Emergency Disaster Support



Rulemaking (R.18-03-011); and Water System Acquisition  
Rulemaking (R.22-04-003)

- Coordination with Outside Consultants, M-Cubed

### **III. SUMMARY OF OVERALL APPLICATION REQUEST**

#### **A. Summary of Goals and Objectives**

Q9. Please explain, in general terms, the global theme for this case in the view of California American Water.

A9. California American Water has prepared its 2022 GRC request with the focus on our customers. Many of the requests for which California American Water seeks authorization are intended to balance the needs of all customers and provide our customers with better understanding of, and control over, their bills. As discussed in the testimony of California American Water President Kevin Tilden, key objectives of this GRC application support efforts to improve water efficiency, enhance reliability and resiliency, and address affordability.

The Company's witnesses discuss in greater detail throughout their testimonies how California American Water's business priorities are reflected in their respective activities, forecasts and requests. These priorities include operating our business safely and efficiently, investing in our infrastructure to enhance and maintain system reliability, proactively addressing water supply availability and resiliency, investing in our employees, furthering the Commission's Environmental and Social Justice ("ESJ") Plan and leading clean energy solutions.

#### **B. External Environment**

Q10. What are the external challenges facing California American Water and its customers today and how is the Company working to solve or mitigate them in this application?

1 A10. The external environment today is challenging. Many issues are not directly controlled  
2 by California American Water, whether climate change, drought or catastrophic events.  
3 More stringent environmental regulations and public purpose programs, serve important  
4 objectives, but also add to customer bills. At the same time costs have increased,  
5 customer use has declined, in many districts dramatically, pushing up the unit cost of  
6 water. The State Water Resources Control Board's ("SWRCB") water use targets are  
7 important in addressing the State's long-term conservation objectives, but driving  
8 consumption down, in a primarily fixed cost business, increases unit water costs.

9  
10 These forces are driving unit water costs higher at a time of renewed focus on  
11 affordability. In analyzing our costs over the past decade what we have found is that  
12 changes in wholesale water costs, compliance costs for water quality regulations,  
13 metering and other mandated programs and changes in customer demand have accounted  
14 for most of the increases in the unit cost of water. Within a challenging external  
15 environment that requires future investments in physical and human capital, California  
16 American Water has been focused on the issues of efficiency and affordability. More  
17 information on our operation and maintenance costs is addressed in the Direct  
18 Testimonies of Stephen (Wes) Owens and John Watkins.

19  
20 Q11. Please provide additional context as California American Water outlines its plans and  
21 requests in its 2022 GRC.

22 A11. The State is currently experiencing one of the most severe droughts in its history and the  
23 effects of climate change continue to impact the frequency and severity of these weather  
24 events. The Direct Testimony of Patrick Pilz at Section VIII addresses the Company's  
25 conservation programs and investments and how learnings from past droughts have  
26 informed our response today. His testimony also includes innovative conservation  
27 programs targeted towards our low-income customers.  
28

1 Our customers continue to deal with the lingering effects of the COVID pandemic and  
2 navigating the reopening of the economy. To support our customers, California  
3 American Water provided extensive payment plans, expanded low-income participation  
4 through outreach and increased data sharing with the State's energy utilities, suspended  
5 shut offs, waived late fees and provided other financial relief. Our requests related to  
6 COVID-19 financial impacts and the Catastrophic Event Memorandum Account  
7 ("CEMA") reflect the significant arrearage relief received from the SWRCB that has  
8 directly benefited our customers. My testimony and Section III of the Direct Testimony  
9 of Michael Clarke, provide more detail on the CEMA balances and the significant  
10 arrearage relief provided by the State.

11  
12 California American Water's 2022 GRC also recognizes investments are needed to plan  
13 for the short and long-term needs of our customers and ensure continued delivery of safe  
14 and reliable water and wastewater service. As addressed in the Direct Testimony of Ian  
15 Crooks, California American Water is utilizing an extensive, fact-based analysis,  
16 including a High-Risk Asset Management study, that evaluates critical company assets  
17 for the consequences and likelihood of failure. Additionally, Condition Based  
18 Assessments, used to evaluate infrastructure condition and identify improvements to  
19 water mains and pump stations, are discussed in Mr. Crooks' testimony. Given the  
20 increasing occurrence, duration, and intensity of wildfires in California, California  
21 American Water has completed an assessment of the wildfire risk to assets in areas  
22 identified by Cal Fire as located in high wildfire risk zones. The intent is to identify the  
23 most critical and vulnerable assets and develop an emergency and protection plan.  
24 California American Water also recognizes the catastrophic consequences of seismic  
25 events to water infrastructure, particularly storage tanks. A seismic study completed  
26 geotechnical, condition-based, structural, and hydraulic analyses of our storage tanks to  
27 determine operational and capital improvement projects to assist in protecting our water  
28 storage. California American Water utilizes these engineering research, studies and

analyses to inform system improvements and additions to ensure safe and reliable water and wastewater service. This level of analysis is responsive to both the external environment as well as the Commission’s focus on safety, reliability and risk mitigation.

**C. Affordability and Balancing the Needs of All Customers**

Q12. Please explain how California American Water is addressing affordability in its 2022 GRC.

A12. One of the most important components of California American Water’s efforts in addressing affordability is our Customer Assistance Program (“CAP”). CAP customers, who qualify based on household income, receive a credit on their bill equal to 20% of their meter charge and volumetric charges in the first two tiers. California American Water is proposing to increase the credit in this GRC to 25% to address affordability concerns. The credit for customers in our Monterey Service Area is equal to 30% of the meter charge and volumetric charges in tiers 1 through 3. That discount is proposed at 35% for customers in our Monterey Service Area. As described in the Direct Testimony of Bahman Pourtaherian, the Company is proposing changes to its rate design that will increase the meter charge component from the current 30% of revenue requirement in most districts to 50% of fixed costs. Some exceptions to this approach are discussed in the testimony of Bahman Pourtaherian, Section X. The proposed changes to the CAP discount addresses impacts to our low-income customers regarding these rate design proposals, and are addressed in greater detail in Section X of the Direct Testimony of Bahman Pourtaherian.

Our CAP discount is a key component of our efforts to address affordability. Additionally, many of the special requests in the 2022 GRC are targeted to improving affordability across all service areas. California American Water is making at least seven unique proposals to address affordability. Those proposals include:

- Partial Consolidation of Transmission and Distribution Net Plant Costs (SR #4)
- Acquisition Revenue Requirement Normalization (SR #5)
- Catastrophic Event Cost Impact Normalization (SR #6)
- Rate Mitigation for Recently Acquired Systems (SR #10)
- Low Income Conservation Programs (SR #16)
- Monterey Wastewater Phase In (SR #18)
- Authorization to Continue the Statewide Hardship Assistance Program.

In the case of SR #4, California American Water proposes to consolidate a portion of the costs of its water transmission and distribution (“T&D”) net plant on a statewide basis to improve the long-term stability of rates in all service areas. These assets are common across all districts. One of the Commission’s objectives has been rate moderation and reducing impacts on customers, especially low-income customers throughout the State.

In SR #5 California American Water proposes to normalize the rate base for the four acquisitions included in this GRC. In SR #6, California American Water proposes to spread the costs associated with catastrophic events across all districts. All three of these special requests are designed to eliminate disproportionate impacts to customers, reduce rate volatility and moderate impacts over the entire state. In D.19-07-015, the Commission acknowledged the benefit of this approach in adopting emergency disaster relief programs, where it ordered recovery of CEMA costs “across each utility’s entire customer base.”<sup>1</sup>

SR #10 would seek a delay in moving the Meadowbrook customers to the Sacramento District rate design and tariff as more time is needed to make that transition and to

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<sup>1</sup> D.19-07-015, *Order Instituting Rulemaking Regarding Emergency Disaster Relief Program*, dated July 11, 2019 (“D.19-07-015”). Ordering Paragraph 10, p. 67.

1 mitigate bill impacts. It also seeks to clarify applicability of surcharges for customers  
2 served by our recently acquired systems. Similarly, SR #18 seeks to mitigate the rate  
3 impact to our active and passive wastewater customers in Monterey County by seeking a  
4 phase-in of rates over the three-year rate case period, 2024-2026. California American  
5 Water has been transparent with the Commission and other parties in prior GRC  
6 proceedings regarding the challenges faced in our Monterey County wastewater systems  
7 and the significant investment needed to meet compliance requirements. The Company  
8 made proposals in the last two cases seeking to implement a high-cost fund. The rate  
9 impacts in this GRC are largely a function of plant investments that will be in service  
10 prior to the test year. The Company has worked diligently to reduce costs in this request  
11 but believes SR #18 is necessary to mitigate the impact to these customers, many of  
12 which are in disadvantaged communities.

13  
14 Special Request #16, addressed in Section XII of the Direct Testimony of Patrick Pilz,  
15 provides funding for the low-income/energy direct install program, which seeks to reduce  
16 bills for both water and energy. California American Water also proposes continuation of  
17 the Company's new and innovative Hardship Benefit Program, which was designed to  
18 help struggling low-income customers avoid having their water shut off due to non-  
19 payment. This program also provides support to our wastewater customers. The  
20 Hardship Benefit Program would continue to be funded partially with shareholder funds.  
21 More information is provided in Section VII of the Direct Testimony of Patrick Pilz.

22  
23 Q13. Are there additional comments that you want to make on the issue of affordability?

24 A13. Yes. California American Water has been a leader in addressing the needs of low-  
25 income customers and this application is no exception. The Company was the first Class-  
26 A water utility to offer a low-income program and its current design of providing a 20%  
27 discount on the meter charge plus the tier 1 and 2 volumetric use, which approximates  
28 indoor water use, has been touted as a model for the State. Now in this application we

1 are proposing increases to these discounts. As stated above, California American Water  
2 also proposes to continue its Hardship Benefit Program statewide. As discussed in  
3 Section V of the Direct Testimony of Patrick Pilz, California American Water has also  
4 been a leader in joint energy/water conservation programs targeted towards low-income  
5 customer needs. California American Water implemented the first large scale Low  
6 Income Joint Water and Energy direct retrofit install program in California.

7  
8 Q14. Please explain what is meant by balancing the needs of all customers, and how is  
9 California American Water proposing to meet that goal in this rate case?

10 A14. By balancing the needs of all customers, California American Water refers to working to  
11 ensure that customer needs are addressed – whether long or short-term, residential,  
12 commercial, public authority or industrial; low- or non-low-income – are considered and  
13 balanced against the needs and service requirements for each. As discussed above, many  
14 of the special requests in the 2022 GRC are designed to ensure water is more affordable  
15 for all customers.

16  
17 **D. Affordability Metrics**

18 Q15. Please describe the work that California American Water has prepared in its 2022 GRC  
19 with regards to affordability metrics.

20 A15. California American Water has followed guidance provided by the Commission in D.20-  
21 07-032 in the current Affordability Rulemaking (R.18-07-006). D.20-07-032 adopted  
22 metrics and methodologies for assessing the relative affordability of utility service. D.20-  
23 07-032 states that “it is reasonable to start to apply the affordability metrics in ratesetting  
24 proceedings. Commission staff will work with the ALJ Division and Commissioner  
25 offices to select ratesetting proceedings to apply the affordability metrics.”<sup>2</sup> While the  
26 Commission has not yet imposed any requirements on water utilities directly in the Phase  
27 1 decision, California American Water has analyzed the proposed rate changes in the

28 

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<sup>2</sup> D.20-07-032, p 63.

context of the adopted metrics in the Report on Affordability Metrics, which is Attachment 4 to the Direct Testimony of David Mitchell.<sup>3</sup>

Q16. Please describe the metrics that David Mitchell analyzed.

A16. The three affordability metrics<sup>4</sup> defined in D.20-07-032 are:

- Hours at Minimum Wage (HM), which calculates the number of hours of work at the prevailing minimum wage that would be needed to pay for essential utility services.
- Socioeconomic Vulnerability Index (SEVI), which characterizes a service area's socioeconomic status in terms of poverty, unemployment, educational attainment, linguistic isolation, and housing cost.
- Affordability Ratio (AR), which calculates the cost of an essential utility service as a percent of household income. Housing cost and the cost of other essential utility services must be deducted from income prior to computing the AR. The calculation is to be done based on the 20th and 50th percentiles of the income distribution.

---

<sup>3</sup> On June 10, 2022, the Commission issued a proposed decision in Phase 2 of the Affordability Rulemaking (R.18-07-006), which would replace the SocioEconomic Vulnerability Index Disadvantaged Communities (SEVI-DAC) with the CalEnviroScreen Tool to allow the Commission to leverage a more consistent designation of Disadvantaged Communities (see Section 4.2, pp. 28-29). Because the proposed decision will not be final before this application is filed on July 1, 2022, California American Water has based its analysis on the currently approved three measures.

<sup>4</sup> California American Water supports the comments filed by the California Water Association in R.18-07-006. Specifically, that these metrics are not fully supported and do not provide the most accurate assessment of affordability, and that the Commission must balance the task of assessing affordability against a utility's obligation to provide safe and reliable water service to its customers. California American Water is providing the results of the Commission's requisite affordability metrics in this GRC in compliance with D.20-07-032, but reserves all rights regarding its position on these metrics and any other issue being addressed in R.18-07-006.



**E. Conservation/Water Use Efficiency**

Q17. What requests are California American Water proposing in this application, at a high level, to address water use efficiency and conservation?

A17. First and foremost is California American Water's installation of AMI meters.<sup>5</sup> As explained in detail in Section IX of the Direct Testimony of California American Water, Vice President of Operations Garry Hofer, once installed, the AMI meters provide more detailed usage data and enables California American Water to provide notifications of possible customer leaks. This is a significant benefit that not only assists the individual customer, but also reduces the waste of water, a limited and essential natural resource. Second, California American Water is unique with its water utility peers in its conservation rate design, which has four inclining block tiers and was part of an approved settlement with the Natural Resources Defense Council ("NRDC") to improve conservation pricing signals and to reduce outdoor water use.<sup>6</sup> That rate design philosophy continues in the application and is discussed in Section X of the Direct Testimony of Bahman Pourtaherian, and the Rate Design Report included as Attachment 3 to the Direct Testimony of David Mitchell. Third, Patrick Pilz has proposed robust conservation programs, which in his words is, "to preserve gains achieved in water conservation, reinject the momentum that widespread drought awareness had created among customers and educate customers that landscape and water usage practices in place for decades have to change in order to use existing water supplies more wisely."<sup>7</sup> It is also to ensure compliance with state regulations and policies including the State's New Water Efficiency Laws. Fourth, California American Water is proposing significant investment to address the SWRCB's Water Loss Performance Standards for urban water

---

<sup>5</sup> California American Water requests installation of AMI meters across the State as part of its length of service replacement schedule. This is discussed in Section IX of the Direct Testimony of Garry Hofer.

<sup>6</sup> California American Water has a four-tier rate design or greater in all of its districts across the state with the exception of the Sacramento and Meadowbrook districts that have a three-tier rate design. Some small recently acquired systems also have fewer than four tiers.

<sup>7</sup> Direct Testimony of Patrick Pilz, Section VIII, p. 25.

1 retail suppliers, which is designed to reduce water loss, energy use and greenhouse gas  
2 emissions. This is discussed in Section X of the Direct Testimony of Patrick Pilz.  
3 Lastly, California American Water will be implementing conservation rates in its recently  
4 acquired systems to incentivize efficient water use and move them over time to the  
5 respective Divisional rate design and tariff. This is discussed in greater detail in Section  
6 X of the Direct Testimony of Bahman Pourtaherian.

7  
8 **F. Rate Clarity and Simplification**

9 Q18. What requests are California American Water proposing in this application, at a high  
10 level, to address rate clarity and simplification?

11 A18. California American Water has been successful in the past GRCs in reducing the number  
12 and complexity of its tariffs. The rate consolidations approved in D.18-12-021 for the  
13 Northern and Central Divisions and the approval of Southern Division Tariff Area  
14 consolidation in D.21-11-024 have significantly reduced the number and complexity of  
15 our tariffs. In the 2019 GRC, California American Water also reduced the number of  
16 surcharges, eliminating the conservation surcharge and consolidating other surcharges by  
17 Division. In the 2022 GRC, California American Water seeks to standardize surcharges  
18 applicable to our recently acquired systems as addressed in SR #10. The Direct  
19 Testimony of Patrick Pilz, Section IV, discusses the proposal in this GRC to waive credit  
20 card fees and to reflect the costs in base rates. This allows customers greater flexibility in  
21 paying their bills. In Section XIV of Mr. Pilz's Direct Testimony, he addresses Special  
22 Request #20 to eliminate late payment fees for our residential customers. Customers who  
23 are assessed late payment fees often struggle financially to make monthly utility bill  
24 payments and the late payment fee adds to the financial burden rather than help to  
25 incentivize prompt bill payments for these demographics. It also places California  
26 American Water more squarely in line with its water utility peers. Lastly, the Direct  
27 Testimony of Michael Clarke outlines the Company's requests related to its Balancing  
28 and Memorandum Accounts. In Section III.A.1 of Mr. Clarke's testimony, he is

1 requesting the transfer and recovery of \$2.3 million in this GRC through the Consolidated  
2 Expense Balancing Account. This amount is a fraction of the costs requested to be  
3 recovered through the CEBA surcharge in the last GRC. This will result in lower  
4 surcharges and a smaller portion of the total bill that is showing up as surcharges, which  
5 is part of California American Water's strategy of providing additional rate clarity and  
6 simplification.

7  
8 **G. Rate Design Policies**

9 Q19. What requests are California American Water proposing in this application, at a high  
10 level, to address customer equity issues?

11 A19. California American Water is proposing some changes to its rate design that balances  
12 affordability, conservation and customer equity. The most noteworthy change is the  
13 proposed increase in the portion of fixed costs recovered in the meter charge. This is  
14 discussed in greater detail in the Rate Design Report included as Attachment 3 to the  
15 Direct Testimony of David Mitchell from M-Cubed and Section X of the Direct  
16 Testimony of Bahman Pourtaherian. As discussed above, California American Water is  
17 addressing affordability through, among other proposals, rate design, various  
18 consolidation proposals, CAP discounts for qualifying residential customers and  
19 continuation of its Hardship Benefit Program.

20  
21 Q20. Are there general policy considerations or direction that were provided to Mr.  
22 Pourtaherian in arriving at the final rate design and cost allocation recommendations?

23 A20. Yes. The rate design proposals reflected in Section X of the Direct Testimony of  
24 Bahman Pourtaherian were informed both by the scenario analysis performed by David  
25 Mitchell in Attachment 3 to his Direct Testimony and policy considerations provided  
26 below.

27  
28 Q21. Please discuss those policy considerations.

1 A21. While there is no one-design-fits-all approach, there are some key principles the  
2 Commission and utilities have considered in the development of a rate design. Some of  
3 these policy considerations include consolidation, balancing investment, conservation and  
4 affordability. The following principles have also been considered:

- 5
- 6 • Maintain affordability for essential levels of indoor water use;
- 7 • Practical, easy to implement, and understandable for customers;
- 8 • Maintain revenue neutrality;
- 9 • Adhere to the principle of gradualism, giving residential customers the  
10 opportunity to adjust to new price signals from the rate design, in addition to  
11 higher rates due to increased revenue requirements;
- 12 • Bear a reasonable relationship to the cost of service,
- 13 • Fair in their treatment of diverse groups of customers, and
- 14 • Providing the company a fair and reasonable ability to actually recover the  
15 authorized revenue requirement.
- 16

17 Q22. Were there other directions that were provided to Mr. Pourtaherian regarding the rate  
18 design proposals?

19 A22. Yes. With respect to recently acquired systems, the principle of gradualism was  
20 emphasized. Although the goal is to move these systems over time to the adjacent  
21 Division tariff, it must be done gradually based on the specific customer impacts.  
22 California American Water also did not want to see an impact to our CAP customers as a  
23 result of rate design changes. Finally, another goal was to limit base bill impact for low  
24 use customers from changes in the meter charge. The application of these policy goals is  
25 addressed in Section X of the Direct Testimony of Bahman Pourtaherian.

26

27 Q23. What is California American Water recommending for recovery of fixed costs in the  
28 meter charge and how did it arrive at this recommendation?

1 A23. California American Water is proposing to increase the recovery of its revenue  
2 requirement in its meter charge from approximately 30% of revenue requirement to 50%  
3 of its fixed costs. This is discussed in more detail in the Direct Testimony of Bahman  
4 Pourtaherian, Section X. The Company's outside expert, David Mitchell of M.Cubed,  
5 prepared a number of rate design scenarios, which are referenced in Attachment 3 to his  
6 Direct Testimony. In those technical memorandum, Mr. Mitchell examined the impact of  
7 various levels of fixed cost recovery. In examining the impact to customer bills,  
8 California American Water arrived at the 50% fixed cost recommendation in that it  
9 balanced a number of policy considerations.

10  
11 Q24. What were the policy considerations that California American Water relied on for its  
12 recommendation?

13 A24. California American Water considered affordability for essential use, adherence to  
14 gradualism, the relationship to cost of service and providing a reasonable ability to  
15 recover the authorized revenue requirement. These are some of the policies that were  
16 considered.

17  
18 Q25. What is California American Water's proposal for establishing the meter-based service  
19 fees for its non-residential customers?

20 A25. California American Water is proposing a monthly meter-based service fee that is 50%  
21 higher than the level set for its residential customers. This is discussed in more detail in  
22 the Direct Testimony of Bahman Pourtaherian, Section X. This proposal was also made  
23 based on the balancing of several policy considerations. First, the meter charge is  
24 typically a smaller portion of the overall bill for most non-residential customers. Second,  
25 as discussed in Attachment 2 to the Direct Testimony of David Mitchell, the price  
26 elasticity for the non-residential customers is generally lower than that of residential  
27 customers. The Company wanted to balance the affordability and stability of its revenue  
28

1 recovery, while avoiding increases in water consumption. This was a particular concern  
2 in our Monterey and Sonoma County systems where water supply is constrained.

3  
4 Q26. Please address any other concerns you have regarding California American Water's  
5 existing conservation rate design.

6 A26. The decoupling WRAM/MCBA is one of the most effective conservation tools for  
7 Commission-regulated utilities, and its loss undermines critical conservation efforts made  
8 by California American Water. California American Water's current steeply tiered  
9 conservation rate designs, which create a high level of revenue volatility, were developed  
10 to be compatible with the decoupling WRAM/MCBA. Without the decoupling  
11 WRAM/MCBA, California American Water will have an extremely difficult time  
12 recovering its revenue requirement. The problem is particularly acute in our Monterey  
13 area where the steeply-tiered conservation rate design is most aggressive and regulatory  
14 limitations on water supply are the most restrictive. The Company is proposing changes  
15 to sales forecasts in compliance with D.20-08-047. We are seeking authorizations in  
16 Special Request #1, #2 and #3 for the M-WRAM, FCBA/ICBAs and the Annual  
17 Consumption Adjustment Mechanism, respectively, to address these significant risks.  
18 However, even if all of these proposals are approved as filed, the Company will likely  
19 experience significant risk to its ability to recover its just and reasonable costs.

20  
21 Q27. If California American Water were successful in retaining the current WRAM/MCBA in  
22 its 2024 test year GRC, how would that change the Company's requests in this  
23 proceeding?

24 A27. California American Water would remove its request for Special Request #1 and #2,  
25 where we are requesting authorization to establish a Monterey-Style WRAM and the  
26 FCBA/ICBAs, respectively. Other than those changes and associated changes to the  
27 exemplary tariffs provided in Attachment 4 to the Direct Testimony of Jonathan Morse,  
28 California American Water would likely not request any additional changes to its

1 application. For example, the rate design changes proposed in this GRC would be the  
2 same regardless of whether the existing WRAM/MCBA remains or not. The proposed  
3 increases to the meter charge should help to stabilize revenue recovery under either  
4 mechanism.

5  
6 **IV. SPECIAL REQUESTS**

7 **A. Authorization of Monterey-Style Water Revenue Adjustment Mechanism –**  
8 **Special Request #1**

9 Q28. Is California American Water proposing a Monterey-Style Water Revenue Adjustment  
10 Mechanism (“M-WRAM”) in this application.

11 A28. Yes. In D.20-08-047, the Commission prohibited California American Water and certain  
12 other utilities from “continuing existing Water Revenue Adjustment Mechanisms/  
13 Modified Cost Balancing Accounts” in their next general rate cases, but also stated that  
14 those utilities may “propose to use Monterey-Style Water Revenue Adjustment  
15 Mechanisms.”<sup>8</sup>

16  
17 Q29. Is California American Water proposing to implement an M-WRAM as authorized by  
18 D.20-08-047 in this application.

19 A29. Yes, California American Water is therefore proposing to implement M-WRAMs in all  
20 of its ratemaking districts, along with other ratemaking changes necessary to compensate  
21 for the loss of the use of the WRAM/MCBA.

22  
23 Q30. Please describe the M-WRAM.

24 A30. The M-WRAM tracks the difference in billed quantity-rate revenues at actual sales over a  
25 calendar year period between the adopted tiered rate design and a revenue-neutral  
26 uniform rate. The M-WRAM tracks the difference between the actual revenues produced  
27 by increasing block rates as compared to the revenues that would have been generated by

28 <sup>8</sup> D.20-08-047, p. 106, Ordering Paragraph 3.

1 a single block rate using actual sales. Exemplary preliminary statement tariff sheets for  
2 the M-WRAM are included with the Direct Testimony of Jonathan Morse as Attachment  
3 1.  
4

5 Q31. Why is the M-WRAM necessary?

6 A31. The M-WRAM is necessary to ensure that actual revenues generated from increasing  
7 block rates are the same as revenues produced by uniform rates, which are single block  
8 rates. The M-WRAM does not, however, adjust revenues based on the actual sales  
9 compared to adopted sales. Unlike the decoupling WRAM eliminated in D.20-08-047,  
10 the M-WRAM does not adjust revenues for sales reductions due to conservation-oriented  
11 tiered rate designs.  
12

13 Q32. Has California American Water previously had an M-WRAM?

14 A32. Yes. As the “Monterey-Style” name suggests, the non-decoupling M-WRAM was  
15 developed for California American Water’s Monterey District, where California  
16 American Water has experienced decades-long water supply constraints. In 1996, the  
17 Commission in D.96-12-005 approved a settlement allowing California American Water  
18 to implement a then-experimental three-tier conservation rate design. It also approved the  
19 M-WRAM to track the revenue variation between the experimental conservation rate  
20 design and the standard Commission rate design. The M-WRAM remained in place until  
21 the Commission approved the decoupling WRAM in 2009.  
22

23 Q33. How do California American Water’s current circumstances differ from when it first  
24 implemented the M-WRAM.

25 A33. California American Water’s current circumstances are substantially different. When  
26 California-American Water first implemented the M-WRAM, it did so in conjunction  
27 with a three-tiered rate design. The tiers were not as steeply inclined as California  
28 American Water’s current and proposed rate designs, and therefore produced less revenue



1 volatility. Additionally, the conservation rates were actually designed to over-collect the  
2 authorized revenue requirement until, as required in D.06-11-050, the conservation rate  
3 design had to collect the same level of proposed revenue as would have been collected by  
4 a single-block rate design.<sup>9</sup> At the time the M-WRAM was adopted, California  
5 American Water had not yet implemented its robust conservation programs designed to  
6 encourage efficient water use. Finally, the water supply in California American Water's  
7 Monterey District is significantly more limited today than it was in 1996, due to an order  
8 from the State Water Resources Control Board to cease unauthorized diversion from the  
9 Carmel River by December 31, 2021.

10  
11 Q34. Please describe California American Water's experience with the M-WRAM.

12 A34. After the M-WRAM was first adopted, California American Water faced increasing  
13 challenges with respect to water supply, including the threat of multi-million-dollar fines  
14 and severe rationing. In response, California American Water had to implement  
15 increasingly aggressive tiered rate designs with higher upper block quantity rates aimed  
16 at the customers using the most water. These more aggressive conservation rate designs,  
17 however, increased revenue volatility. Because the M-WRAM did not address the  
18 resulting changes in consumption due to conservation pricing signals, it did not provide  
19 the necessary revenue stability, which made it impossible for California American Water  
20 to recover its revenue requirement.<sup>10</sup>

21  
22 Q35. How should the Commission implement the transition from the current full decoupling  
23 WRAM to the M-WRAM?

---

25 <sup>9</sup> This adoption of change in the M-WRAM mechanics resulted in a severe under-collection of revenues  
26 and large WRAM balances in the M-WRAM (and WRAM) on a going forward basis due to water  
27 supply limitations.

28 <sup>10</sup> Between 2005 and 2009, California American Water lost a total of \$2.5 million after-tax. If you  
compare California American Water's net income based on its authorized return on equity against its  
achieved results, it represents a lost opportunity in net income of \$62 million after-tax.

1 A35. The transition from the full decoupling WRAM to the M-WRAM should occur on the  
2 effective date for new rates established in this GRC. Specifically, the Commission should  
3 authorize California American Water to revise its tariff schedules/preliminary statements  
4 and to concurrently cancel its present schedules/preliminary statements upon the effective  
5 date of new rates through a Tier 1 implementation advice letter. Thus, the existing  
6 WRAM/MCBA accounts would be in effect and continue to track costs until new rates in  
7 this GRC are implemented, at which time the M-WRAM will begin to track costs moving  
8 forward from that point. The amortization of each respective account would be  
9 implemented in accordance with the procedures set forth in the applicable preliminary  
10 statement approved by the Commission. This is consistent with the “gradual phase-out”  
11 of the WRAM contemplated in D.20-08-047. California American Water proposes the  
12 following Ordering Paragraph language to smoothly implement this transition:

13  
14 “It is ordered that California American Water shall cease to track quantity rate  
15 revenue variations under its current WRAM/MCBA mechanism, and henceforth  
16 track revenue variations in an M-WRAM/FCBA as of day 1 the first full month  
17 after the Commission authorizes, through an advice letter filing, the new rates as  
18 approved by this decision to be implemented. Until such time as new rates from  
19 this decision are authorized to be implemented by an approved advice letter, all  
20 quantity revenue variations are to continue to be tracked in the current  
21 WRAM/MCBA mechanisms.

22  
23 California American Water shall continue collection of the WRAM/MCBA  
24 surcharges at the rate equivalent to the 15% cap on the authorized revenue  
25 requirement. Any remaining WRAM/MCBA balances that may exist as of  
26 December 31, 2026 will be transferred to the respective District’s Consolidated  
27 Expense Balancing Account (“CEBA”) for recovery.”  
28

1 Q36. Please describe how the single quantity rate used in the calculation for the M-WRAM  
2 balancing account was quantified.

3 A36. The single quantity rate is calculated by taking the total annual adopted residential  
4 quantity revenue divided by total annual residential sales. The total annual adopted  
5 residential quantity revenue is the sum of all the adopted residential revenues from all  
6 tiers. The total annual adopted residential sales is the sum of all the adopted residential  
7 quantity sales from all tiers. If the Annual Consumption Adjustment Mechanism  
8 (“ACAM”) detailed in Special Request #3 is re-authorized in this proceeding and the  
9 tiered rates are calculated using ACAM sales, then the single quantity rate for that year  
10 will be calculated in the same manner but using ACAM revenues and sales rather than  
11 adopted revenue and sales.

12  
13 Q37. Will any of the proposed rate design changes impact the M-WRAM?

14 A37. No. In all districts, California American Water will be proposing conservation rates.  
15 Please see Section X of the Direct Testimony of Bahman Pourtaherian for the proposed  
16 rate design for all of California American Water’s districts. The Company is also  
17 proposing conservation rates in newly acquired water systems. One of California  
18 American Water’s rate design policies is to gradually over time move acquired water  
19 systems to the adjacent Division rate design. This may occur over several rate case  
20 cycles in order to mitigate the impact to customer rates.

21  
22 **B. Authorization of Full Cost Balancing Account (“FCBA”) and Incremental**  
23 **Cost Balancing Account (“ICBA”) – Special Request #2**

24 Q38. What is California American Water requesting in Special Request #2?

25 A38. In Special Request #2, California American Water seeks Commission authorization to (1)  
26 establish incremental cost balancing accounts (“ICBAs”) for its San Diego and Ventura  
27 County districts and (2) establish full cost balancing accounts (“FCBAs”) for its  
28 Monterey, Los Angeles, Sacramento, and Larkfield districts. California American Water

recommends that the transition from the current modified cost balancing account (“MCBA”) to the ICBAs/FCBAs be implemented upon the effective date of new rates established in this GRC. Exemplar preliminary statement tariff sheets for the ICBAs and FCBAs are included with the Direct Testimony of Jonathan Morse as Attachment 1.

Q39. What is the current MCBA that California American Water has been implementing?

A39. The Commission first authorized California American Water to implement the MCBA in a series of GRC decisions for various districts in 2008 (D.08-06-002, D.08-11-023, and D.09-07-021). The MCBA was implemented in conjunction with the WRAM and tracks the difference in authorized water production expenses (purchased water, purchased energy, and pump taxes) and actual water production expenses over a calendar-year period. Any over- or under-collection is netted against the WRAM in calculating revenue shortfalls or over collections. The MCBA was adopted in conjunction with the WRAM to offset revenue shortfall due to lower sales from conservation with the expected lower water production expenses arising from lower sales.

Q40. Why is California American Water requesting to transition from the MCBA to the ICBA and FCBA?

A40. In D.20-08-047, the Commission prohibited California American Water and certain other utilities from “continuing existing Water Revenue Adjustment Mechanisms/Modified Cost Balancing Accounts” in their next general rate cases, but also stated that those utilities may “propose to use Monterey-Style Water Revenue Adjustment Mechanisms and Incremental Cost Balancing Accounts.”<sup>11</sup> While the focus of the D.20-08-047 was on the elimination of the full decoupling WRAM element, it did not prohibit utilities from proposing other mechanisms such as the FCBA instead and did expressly allow the proposed ICBA. Therefore, for the reasons set forth below, the ICBA and FCBA are

---

<sup>11</sup> D.20-08-047, p. 106, Ordering Paragraph 3.

1 justified for the respective districts in the absence of the MCBA in order to protect  
2 customers from changes to water supplies that are beyond the control of the utility.  
3

4 Q41. What is the ICBA?

5 A41. The ICBA tracks differences in the authorized prices of water production components  
6 and actual water production price components—essentially tracking variances in water  
7 supply costs due to supplier price changes that are outside the control of the water utility.  
8 The ICBA adjust rates to account for changes in the prices of water production  
9 components from what was adopted in establishing authorized rates.  
10

11 Q42. Why is California American Water proposing the ICBA for its San Diego and Ventura  
12 County districts?

13 A42. California American Water is proposing the ICBA for the San Diego and Ventura County  
14 districts as suggested by the Commission in D.20-08-047 to account for variances in  
15 water supply costs due to supplier price changes in those districts that are outside the  
16 control of the water utility. The ICBA is appropriate for those districts because the water  
17 supply for those districts is 100% supplied by purchased water. All of the water used to  
18 serve the San Diego district is purchased from California American Water's regional  
19 wholesale water provider there, the City of San Diego. All of the water used to serve the  
20 Ventura County district is purchased from California American Water's regional  
21 wholesale water provider there, Calleguas Municipal Water District. Therefore, there is  
22 no material variability in the supply mix for either of these two districts. Each of these  
23 two municipal agencies has the independent authority to make changes to the per-unit  
24 water costs, a process which cannot be easily forecasted and is beyond the control of  
25 California American Water. Accordingly, implementing the ICBA is appropriate and  
26 justified for the San Diego and Ventura County districts.  
27

28 Q43. What is the FCBA and how is it different than the ICBA?

1 A43. The FCBA is similar to the ICBA except that it also tracks variances in quantity from the  
2 original authorized amounts resulting from changes in supply mix. It differs from the  
3 ICBA in that the ICBA only records expense differences caused by supplier unit price  
4 changes but ignores any differences caused by changes in supply mix.  
5

6 Q44. Has the Commission previously authorized any other Class A water utility to implement  
7 a full cost balancing account?

8 A44. Yes, the Commission has long authorized San Gabriel Valley Water Company (“San  
9 Gabriel”) to implement a FCBA for water costs in its Fontana Water Company division,  
10 which it continues to implement today. The Commission evaluated San Gabriel’s request  
11 to continue implementing the FCBA in D.04-07-034 and highlighted some of the points  
12 raised by San Gabriel in support of its request:<sup>12</sup>.  
13

14 San Gabriel states that the extreme volatility of Fontana Division’s supply mix  
15 and the large difference in cost among the different sources of supply require  
16 retaining the full cost balancing accounts the Commission has approved in  
17 previous Fontana Division rate cases. Further, San Gabriel states that a full cost  
18 balancing account protects both customers and San Gabriel from significant  
19 deviations from GRC forecasts of these expenses and from any supply cost or mix  
20 changes that cannot be forecasted before the rates have been determined. Because  
21 of these full cost balancing accounts, San Gabriel was able to refund  
22 approximately \$5 million to its Fontana Division customers through a surcredit  
23 that was effective from 1994 through 2000 (Advice Letters 281 and 297). In  
24 addition, the \$1.3 million overcollection in the water production balancing  
25 account shown above is the direct result of savings achieved when a change in the  
26 supply mix allowed Fontana Division to use lower cost supplies that could not be  
27

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28 <sup>12</sup> D.04-07-034, pp. 62-63

1 forecast in the GRC. According to San Gabriel, without the full cost balancing  
2 account, these savings would not flow to the customers.

3  
4 The Commission therefore noted that for San Gabriel's Fontana Division, both  
5 water production and power supply costs are subject to wide variations, and  
6 importantly found that "the supply mix is determined by hydrological conditions  
7 that are beyond San Gabriel's ability to predict or control."<sup>13</sup> Therefore, the  
8 Commission granted San Gabriel's request to continue the FCBA.<sup>14</sup>

9  
10 The Commission later authorized San Gabriel to continue the FCBA for the  
11 Fontana Water Company Division in D.10-04-031, explaining that the  
12 hydrological conditions justifying the FCBA "do not appear to have changed for  
13 the better. Drought conditions continue to highlight the supply uncertainties and  
14 variabilities inherent in FWC's lower cost source, Lytle Creek surface water.  
15 Tracking all cost variances, including those prompted by actual quantities, of  
16 purchased water, purchased power and pump taxes, is therefore warranted for that  
17 division."<sup>15</sup>

18  
19 Q45. Is there other testimony being provided by California American Water in this GRC in  
20 connection with Special Request #2 for the establishment of ICBA's and FCBA's in the  
21 districts specified?

22 A45. Yes. Additional testimony and operational support for the requested ICBA and FCBA  
23 are addressed in Section III of the Direct Testimony of Christopher Cook, General  
24 Manager of our Central Division and Section III of the Direct Testimony of Garry Hofer,

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25  
26 <sup>13</sup> *Id.*, p. 63.

27 <sup>14</sup> *Id.*

28 <sup>15</sup> D.10-04-031, pp. 35-36.

Vice President of Operations. They discuss the environmental, legal and operational limitations around our water supply.

Q46. Is California American Water making any clarifications to the calculations associated with the FCBA and ICBA?

A46. Yes. For the power component of the FCBA and ICBA, California American Water proposes one division wide rate per kWh and one rate calculation per year. The calculation would be based on the division's annual power expense divided by the annual kWh to yield an annual power rate per kWh and the difference between the actual and adopted price per kWh would be used to calculate the entry to the power component of the respective FCBA or ICBA. Details are provided in the exemplary tariffs, which are included in Attachment 1 to the Direct Testimony of Jonathan Morse.

**C. Re-Authorization of Annual Consumption Adjustment Mechanism  
("ACAM") – Special Request #3**

**1. Description of Existing ACAM Mechanism**

Q47. Please describe California American Water's request with respect to the ACAM.

A47. California American Water requests retention of the ACAM pilot program for all its districts and the permanent program in the Monterey District.<sup>16</sup> In its final decision approving California American Water's 2019 GRC, the Commission approved making the ACAM mechanism permanent for the Monterey District.<sup>17</sup> Additionally and as explained in Section IV.C.3 below, California American Water proposes three specific modifications to the current mechanism in this GRC.

---

<sup>16</sup> D.21-11-024 approved the ACAM as a pilot program for all of California American Water's districts across the state except for the Fruitridge Vista and Chualar districts (pp. 156-157). In this GRC, the Company proposes to apply the ACAM to all districts but exclude Fruitridge Vista and Bass Lake, which will not be fully metered until 2025 at the earliest. Please see the sales forecast testimony of Bahman Pourtaherian, Section IV for additional discussion.

<sup>17</sup> D.21-11-024, Section 14.12, pp. 156 and 157.



1 Q48. Please describe California American Water's current ACAM mechanism.

2 A48. The purpose of the ACAM is to adjust rates annually based on the previous year's actual  
3 water consumption to better match actual revenues. D.18-05-027, established the ACAM  
4 for California American Water's Monterey Service Area as a pilot program effective  
5 January 1, 2019. Per D.21-11-018 the ACAM is a permanent program for the Monterey  
6 Service Area and a pilot program for all other service areas. The ACAM annually adjusts  
7 volumetric rates based on actual water sales.  
8

9 Q49. Please describe the regulatory process for changing rates.

10 A49. California American Water is required to file a Tier 2 advice letter on or before  
11 November 15. The advice letter provides actual recorded monthly consumption by  
12 classification and by tier from October 1 of the prior year through September 30 of the  
13 current year. Upon approval of the Tier 2 advice letter, California American Water files  
14 a Tier 1 advice letter to implement new rates January 1 of the subsequent year. The  
15 approved data will then replace the adopted quantities beginning January 1 of the  
16 subsequent year and be used for future rate adjustments during that year.  
17

18 Q50. Is the ACAM unique to California American Water?

19 A50. No. There are aspects of the ACAM that are tailored to issues facing California  
20 American Water. However, other water utilities have had mechanisms in place for  
21 several years. In the case of California Water Service, their Sales Reconciliation  
22 Mechanism ("SRM") has been in place since 2015. The ACAM is also similar to  
23 approaches used on the energy side to better match demand, cost allocation and rate  
24 design. For example, the gas utilities have had a long-standing practice, going back to  
25 the early 1990s of adjusting balancing account collections on an annual basis through  
26 advice letters. The gas utilities also adjust demand forecasts for each year of a GRC.  
27 This is handled through the triennial cost allocation proceedings. Similarly, for  
28 California electric utilities, the sales forecast occurs annually as part of the Energy

1 Resource Recovery Account (“ERRA”). The challenge that California American Water  
2 has experienced in its districts is that there are multiple exogenous factors, as well as  
3 long-term downward trends in consumption, which have made it difficult to match  
4 authorized and actual consumption.

## 6 **2. Benefits and Quantitative Results**

7 Q51. What would be the benefits of moving to an annual adjustment process?

8 A51. The ACAM provides many benefits to customers. It can reduce the numerous surcharges  
9 on customer bills. Frequent rate changes confuse customers, particularly when California  
10 American Water and the Commission are urging them to conserve. Customers may  
11 believe that they are being penalized for conserving water when they see bill increases  
12 despite reduced consumption. Utilizing a more accurate consumption forecast allows  
13 customers to budget their annual water costs better. It provides the right pricing signals  
14 so that all conservation and use restriction signals are timely and consistently provided to  
15 customers. Moreover, the process would simplify rates and further the Water Action  
16 Plan goal of streamlining regulation. Ultimately, this process lowers rates to customers  
17 by shortening the period that balancing accounts accrue interest. There are also ratepayer  
18 equity considerations in the timely recovery of costs in rates for the customers of record.  
19 The Company requests a current-view process that is a reliable and timely process for re-  
20 setting rates annually that will increase the likelihood that conservation rates will collect  
21 the authorized revenue requirement. The ACAM has also been effective at capturing the  
22 long-term decline in use per customer.

23  
24 Q52. Has the Commission explored the value of mechanisms like the ACAM?

25 A52. Yes. The Commission’s Policy and Planning Division authored a study titled,  
26 “Evaluating Forecast Models, the Water Revenue Adjustment Mechanism,” proposing a  
27 similar mechanism to the ACAM called the Water Demand Attrition Model (“WDAM”)  
28 where they conducted a simulation on a theoretical water IOU and found that

1 “cumulative WRAM balances are reduced by more than half simply by updating the sales  
2 forecast in year 2 and 3.”<sup>18</sup>

3  
4 Q53. Has California American Water studied the effects of this proposal on uncollected  
5 WRAM/MCBA balances had this annual adjustment mechanism been previously in  
6 place?

7 A53. Yes, an analysis for the Monterey Main System Residential WRAM/MCBA balance  
8 assuming this adjustment mechanism would have been adopted in prior GRC decisions is  
9 shown in Attachment 1 to this testimony. Attachment 1 shows that had the pilot program  
10 been in place for 2014 and 2015, it would have reduced the net under-collection for the  
11 Monterey Main System customers. This analysis was referenced by the Commission in  
12 the Monterey Rate Design Proceeding (A.15-09-017) in recommending the ACAM.  
13 California American Water has also analyzed the performance of the ACAM in its  
14 Monterey District since its inception. For example, the net balance of the  
15 WRAM/MCBA for the last year filed for 2021 for the Monterey District was net under-  
16 collected by only \$161,640, which is a very small amount in term of the overall revenue  
17 and prior balances.

18  
19 Additionally, David Mitchell, consultant with M.Cubed, studied the performance of the  
20 ACAM and a weather-adjusted ACAM against GRC sales forecasts and found that the  
21 mean absolute percentage error (“MAPE”) for the ACAM and weather-adjusted ACAM  
22 was much lower. In the case of the weather-adjusted ACAM, the performance was 50%  
23 better in terms of forecast accuracy over the GRC sales forecasts for the 12-year period of  
24

25  
26  
27 

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18 Richard White, Principal Author, Marzia Zafar, Editing Author, Evaluating Forecast Models, the  
28 Water Revenue Adjustment Mechanism, Policy and Planning Division, California Public Utilities  
Commission, August 17, 2015, at 15.

his study. This is presented in more detail in Attachment 2 to the Direct Testimony of David Mitchell under ACAM Weather Normalization and Appendix B.

### **3. Requested Revisions to Current ACAM Authorizations**

Q54. What is California American Water requesting in regard to proposed changes to the ACAM Mechanism?

A54. California American Water is proposing three specific modifications to the current ACAM mechanism. Those specific changes, in general terms are: 1) A trigger mechanism that would allow for the ACAM to be triggered and authorized consumption level adjusted when regulatory constraints or actions would have an impact on customer behavior and cause reduction in proposed consumption, 2) A new process in the ACAM mechanism that would align any and all changes in projected customer consumption to the levels of production and the related projected costs, and 3) A weather-adjustment applied to the historical ACAM consumption for the Southern Division only.

Q55. Please explain the current ACAM process in general terms.

A55. The current ACAM process is a backward-looking process to change future consumption authorizations for ratemaking purposes. In other words, a recorded level of customer usage is used as the adjusted basis of projected consumption in the annual period following the recorded period. The following calendar year rates are based on actual consumption for the 12-month ended September 30<sup>th</sup> of the prior year.

Q56. Why is the current annual backward-looking adjustment process not appropriate in many circumstances?

A56. The current process does not take into account; 1) known and forecast changes in consumption that can and will occur as the result of drought restrictions, 2) other regulatory imposed production limitations, 3) emergency mandated use reductions, 4) changes in use patterns that result from volatile weather changes, 5) the need to make

1 more accurate forecasting as part of the regulatory process, and 6) source production  
2 variations that must be addressed in any change to the production estimates.

3  
4 Q57. What are you requesting in regard to a trigger mechanism that would consider  
5 “regulatory constraints or actions would have an impact on customer behavior and cause  
6 reduction in proposed consumption”?

7 A57. The ACAM should be authorized to be triggered to allow projected consumption to be  
8 adjusted for regulatory purpose anytime there is a regulatory requirement to reduce  
9 consumption. This would include times when drought restrictions may be implemented,  
10 mandated restrictions may be implemented, regulatory requirements on source water  
11 limitations may be implemented and/or governmental notifications or requests to limit  
12 usage are distributed to various areas. These various changes should allow a triggering of  
13 the ACAM when known and not wait to be implemented as they now would be as an  
14 after-the-fact occurrence. These types of changes are especially imperative for the  
15 Central Division as the water supply constraints in the area are ever changing and source  
16 water availability variations can cause the immediate need to limit customer usage.  
17 However, the allowance for the immediate need to change projected customer  
18 consumption is needed in all divisions. In all service areas of California American Water  
19 there are circumstances where water availability can be limited on short notice.

20  
21 Q58. Why is California American Water proposing this type of revision to its approved ACAM  
22 if it currently has the ability to activate its drought memorandum account and track lost  
23 revenues?

24 A58. While a memorandum account is available in certain situations, such as in the case of  
25 mandatory conservation or rationing, it is not available when limited restrictions may  
26 only affect certain service areas or in times where requested use restrictions are  
27 implemented, without a mandate. Additionally, this does nothing to solve the persistent  
28 problem of aligning consumption estimates closer to actual consumption, which were

1 addressed at length in the LIRA Phase 1 decision, D.20-08-047. Memorandum accounts  
2 do nothing to get projections closer to expectations. This request will allow consumption  
3 estimates to be better matched to actual expectations.  
4

5 Q59. Why is California American Water proposing that the ACAM consumption be weather  
6 adjusted for customers in our Southern Division only?

7 A59. While California American Water is attempting to limit changes to the existing ACAM  
8 mechanism, the weather variability of our Southern California districts is very large,  
9 particularly for our Ventura and Los Angeles County Districts. As addressed in more  
10 detail in Attachment 2 to the Direct Testimony of David Mitchell, year-to-year variability  
11 in weather can cause sales in our Southern California Districts to fluctuate by plus/minus  
12 ten percent. Removing the contemporaneous effects of weather on sales before applying  
13 the ACAM is therefore important. The ACAM should not adjust next year's sales on the  
14 basis of the current year's weather since next year's weather may be significantly  
15 different. Adjusting observed sales for weather conditions can be done easily and would  
16 improve ACAM performance. This revision recognizes the unique issues of the Southern  
17 California districts. Attachment 2, Appendix B to Mr. Mitchell's Direct Testimony  
18 provides examples of the calculations of the weather adjustment process.  
19

20 Q60. Please explain why the ACAM should also adjust the volumes for setting production  
21 costs in the step and attrition years.

22 A60. If the ACAM is used to adjust water rates annually, it should also be used to adjust the  
23 production costs. This is a flaw in the current mechanism that should be addressed.  
24 Water production unlimited availability as in the past is no longer the situation. There are  
25 many restrictions on where you can produce water and when. Additionally, there are  
26 requirements in areas where specific water sources have to be used as a priority, even if  
27 they are the highest water production cost. These limitations on water source availability  
28 requires that changes in the ability to use certain sources be allowed to be changed in any

1 ACAM adjustment to match expected production use against the projected production  
2 use. This is especially true, again, in the Central Division, where there are water sources  
3 with highly different costs and highly speculative availability. These cost and availability  
4 differences can cause a significant change in cost per unit of water produced and this  
5 should be allowed to be a forward-looking change and not an after-the-fact changes.

6  
7 **D. Partial Consolidation of Transmission and Distribution Net Plant Costs –**  
8 **Special Request #4**

9 Q61. What is California American Water requesting of the Commission in regard to further  
10 statewide cost consolidation for rate making purposes?

11 A61. California American water is proposing that the Commission authorize all water  
12 transmission and distribution (“T&D”) net plant assets to be consolidated for all rate-  
13 making districts. This request would combine all water T&D net plant assets into a  
14 central pool to be allocated back to each tariff area based on the number of customers in  
15 that rate making area. In this GRC, California American Water requests to initially  
16 consolidate 25% of the net T&D plant assets into a central pool for test year 2024 and to  
17 increase that percentage to 50% beginning in 2025.

18  
19 Q62. Why is California American Water proposing the partial consolidation of T&D water net  
20 plant assets into a single pool for rate making purposes?

21 A62. California American Water is making this as a furthering of cost consolidation when it  
22 benefits the long-term stability of rates in all service areas. To be able to assist in the  
23 volatility of rate changes over time, this consolidation furthers the initiatives that have  
24 been proposed and authorized in past Commission decisions. Part of the objectives of the  
25 Commission has been, and continues to be, rate moderation and reducing impacts on  
26 customers, especially low-income customers throughout the State. By seeking a  
27 consolidation of T&D net plant assets it recognizes that these are assets that are necessary  
28 for service to all customers in all service areas, and that the reason these assets cause

significant rate fluctuations is based only on the serviceability and life span of such assets.

Q63. Please explain in greater detail exactly how you would implement the proposal you are seeking to have the Commission authorize.

A63. What I am proposing is that a portion of T&D plant assets, including reservoir, tanks, mains, services, meters, hydrants and other T&D assets, and the associated depreciation reserve for these assets, be removed from the calculation of the divisional/individual service area determination of a rate base for rate determination and instead be accumulated into a single consolidated T&D net asset calculation that would then be spread back to the individual rate making area based on a customer allocation.

Q64. Why do you believe that this consolidation is in the customers benefit?

A64. As noted above, these T&D assets are items that are common to every service area. Every system needs storage facilities. Most of these assets have useful lives over 30 years.<sup>19</sup> Every system needs a method by which water can be transmitted and provided to customers through mains, services and meters. Every system is designed to fight fires through the use of hydrants used by firefighters. The main differences in the net plant value of such assets to customers is in the age of the assets, the replacement schedules and in current cases the intent and use of the asset. While all systems require storage, the need for more diverse sized and placed assets could cause higher costs for these assets in various areas. The replacement of these can be very costly and because of the long-life span, can be many multiple times more expensive than the original cost of the asset being replaced. This replacement schedule can also be lumpy in replacement cost when applicable to a single service area. There are a limited number of reservoirs and tanks in any service area and when one or two must be replaced, it can significantly impact the

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<sup>19</sup> The one asset that has a shorter life in T&D category is meters, which is also the lowest cost per unit item.



1 rate base of a particular service area. Mains, services and hydrants are generally replaced  
2 in multiple numbers as they are usually installed as new subdivisions were added to a  
3 system. Spreading a portion of the net plant value of these assets for all tariff areas as a  
4 cost per customer over all customers would allow for rate impact moderation and a much  
5 more stable over time increase pattern as the cost of replacements is spread Company-  
6 wide.

7  
8 The ability to accumulate the cost of these assets over the entire customer base will  
9 significantly reduce the individual tariff area immediate impact and spread it over time as  
10 metering occurs. This is exactly why it was more affordable for energy utilities as they  
11 have a much larger customer base and tariff area to mitigate the individual immediate  
12 impact as the systems are installed. This is a significant customer benefit that can be  
13 made more affordable by statewide allocation and systematic installation  
14

15 Q65. Are there similar cost allocation benefits that occur with the consolidation of other T&D  
16 net plant assets?

17 A65. Yes. There have been replacement issues in the past that have had to be spread out over  
18 time because of the net rate impacts, even though the immediate replacement would have  
19 been much preferred and beneficial to customers. The replacement of mains and services  
20 that only after installation are discovered to have long-term breakage and leakage issues,  
21 and the discovery of issues in the foundations and structural integrity of storage facilities  
22 due to long-term land movement issues can and have had significant tariff rate area  
23 impacts that could have been moderated under this proposal. SR #4 would likely reduce  
24 the disincentive of earlier replacement. Had this rate moderation tool been in place in the  
25 past, it would have moderated any single districts rate impacts.  
26

27 Q66. Are there other benefits that may result from this proposed T&D net plant asset  
28 consolidation?

1 A66. Yes. It is never known when new technology, new regulations or other impactful  
2 measures require the installation of new plant or the replacement of various system  
3 assets, including T&D assets. When new regulations have occurred, those assets may  
4 have been in only certain areas. Spreading the cost of these net assets would allow for  
5 more assets to be replaced quicker. The same can be said for assets such as Class M  
6 copper service pipes that were at one time to be used in home construction. These pipes  
7 were susceptible to pin hole leakage and had to be replaced far before the expected end of  
8 the service life. Again, if the net plant value of these assets were allocated over an entire  
9 customer base, they could have been replaced far quicker. New regulations can also  
10 require the same kind of mass replacement and cost impact to a small service area that  
11 can be moderated by consolidation.

12  
13 Q67. How does your current proposal align with other Company-wide consolidations that have  
14 been previously approved?

15 A67. California American Water has received Commission approval for several consolidation  
16 proposals. Likewise, the Company has been instructed by the Commission to consolidate  
17 certain costs, and has made and received a number of cost consolidation programs in the  
18 past. In the final decision approving the Company's 2016 GRC (D.18-12-021) the  
19 Commission approved California American Water's request to consolidate the rates for  
20 the Larkfield, Sacramento, Geyserville, Dunnigan and Meadowbrook service areas into a  
21 single tariff ratemaking area.<sup>20</sup> The decision also approved California American Water's  
22 request to consolidate all the non-Seaside Basin/Carmel River aquifer systems in  
23 Monterey into a single tariff ratemaking area. Then in the final decision approving the  
24

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25 <sup>20</sup> Consolidation approved for the Northern Division in D.18-12-021 approved moving Geyserville and  
26 Dunnigan water customers onto a single rate tariff. It also approved freezing in place the current  
27 revenue requirement for the Larkfield customers until there is closer parity with the Sacramento rates  
28 until moving them on to the Northern Division rates. For Meadowbrook customers, D.18-12-021  
approved California American Water's request to delay moving these water customers on to the  
Northern Division rates until the next GRC. The revenue requirement for all of the Northern Division  
including, Sacramento, Dunnigan, Geyserville, Meadowbrook and Larkfield are consolidated today.

1 2019 GRC (D.21-11-024) the Commission approved the Company's proposal to  
2 consolidate the five Southern California Districts into a single Southern Division Tariff  
3 Area, with a single rate design and tariff. In D.19-07-015, the Commission instructed  
4 California American Water to revise its tariffs related to catastrophic events to collect  
5 costs on a statewide basis. This is the same approach to various surcharges, including  
6 recovery of costs related to the CAP discount and the current Consolidated Balancing  
7 Account ("CEBA"). The CEBA allows a number of costs to be consolidated into one  
8 account and the surcharge to be recovered from all customers within that Division. There  
9 are other examples as well. Spreading costs over a much larger customer base allows for  
10 cost moderation and to make necessary investment more quickly and with less customer  
11 impact.

12  
13 Q68. Is rate consolidation a new concept?

14 A68. Consolidated rates are the most common types of rates charged by utilities. They involve  
15 utility-wide, region-wide or statewide pricing based on a single tariff.<sup>21</sup> Under such  
16 rates, all utility customers within a given category (such as residential, commercial, etc.)  
17 pay the same rate for the same service, even though the individual systems or areas where  
18 service is received may vary in terms of operating characteristics and stand-alone costs.<sup>22</sup>  
19 Consolidated rates are most commonly used by energy utilities but are not uncommon on  
20 the water side. The most well-known example of such pricing is "postage stamp" rates,  
21  
22  
23  
24

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25 <sup>21</sup> "Consolidated Water Rates: Issues and Practices in Single-Tariff Pricing," published by the United  
26 States Environmental Protection Agency and the National Association of Regulatory Utility  
Commissioners ("Consolidated Water Rates, EPA"), Sept. 1999, at p. 2.

27 <sup>22</sup> *Id.* at p. vii, see also p. 1 ("Consolidated rates or single-tariff pricing is the use of a unified rate  
28 structure for multiple water (or other) utility systems that are owned and operated by a single utility,  
but that may or may not be contiguous systems or physically interconnected.... [it] essentially allows  
for allocating the average costs of combined systems in the course of ratemaking").

1 which are uniform by class and were used to extend service to rural areas and serve the  
2 national interest, provide equity and accessibility, and lower transaction costs.<sup>23</sup>

3  
4 Q69. If consolidation is being requested, what is the old system that consolidation would  
5 replace?

6 A69. The old (now vanishing in many areas of the country) rate structure is one where water  
7 company pricing was based on smaller geographic zones or systems (often referred to as  
8 district specific pricing). Prices for that pricing model are set for each narrow zone or  
9 system – even if a utility has multiple systems. The local geographic model rests on the  
10 notion that the cost of delivering water in certain zones differs from the cost of delivering  
11 it in other areas, so the prices charged should be different, in order for customers to pay  
12 only for the costs of serving themselves. In practice, however, that never actually  
13 happens. Even within a small district, for example, the further a customer is from water  
14 production or storage, the more it would cost to serve that customer because more water  
15 mains and pumping costs would be necessary. Thus, even within this pricing model,  
16 averages are used. Consolidating rates increases the size of the pool that is averaged,  
17 while reducing problems associated with district specific pricing, such as inequity,  
18 affordability issues, rate shock, and revenue instability.

19  
20 Q70. Have any other entities voiced approval for water utility rate consolidation?

21 A70. Yes. The National Association of Regulatory Utility Commissioners’ (“NARUC”) Board  
22 of Directors adopted the Water Committee sponsored *Resolution Supporting*  
23 *Consideration of Regulatory Policies Deemed as “Best Practices”* (“BP Resolution”) as  
24 part of its Board Meeting on July 27, 2005. In brief, this BP Resolution declared:

25  
26 To meet the challenges of the water and wastewater industry which may face a  
27 combined capital investment requirement nearing one trillion dollars over a 20-

28 <sup>23</sup> *Id.* at p. 1.

1 year period, the following policies and mechanisms were identified to help ensure  
2 sustainable practices in promoting needed capital investment and cost-effective  
3 rates: ... f) consolidation to achieve economies of scale; g) acquisition  
4 adjustment policies to promote consolidation and elimination of non-viable  
5 systems; h) a streamlined rate case process; ... k) integrated water resource  
6 management.... and

7  
8 In light of the possibility that rate increases necessary to remediate aging  
9 infrastructure to comply with increasing water quality standards could adversely  
10 affect the affordability of water service to some customers, the following were  
11 identified as best practices to address these concerns: ... *c) allowing the*  
12 *consolidation of rates (“Single Tariff Pricing”) of a multi-divisional water*  
13 *utility to spread capital costs over a larger base of customers....*<sup>24</sup>

14  
15 By doing so, consolidated, “single-tariff pricing tends to stabilize rates and revenues,  
16 mitigate rate shock, and make rates more affordable for the customers of the smallest and  
17 more expensive systems.”<sup>25</sup>

18  
19 **E. Acquisition Rate Base Normalization – Special Request #5**

20 Q71. How is California American Water proposing to normalize the rate base of the  
21 acquisitions that have been filed with the Commission?

22 A71. California American Water requests Commission authorization to normalize the rate base  
23 of four acquisitions by allocating a portion of the Commission authorized rate base  
24 related to these acquisitions statewide. This request would apply to the four acquisitions  
25 that are reflected in this application, which include East Pasadena, Bellflower, Warring  
26 and Bass Lake. As discussed in Section XI of the Direct Testimony of Stephen (Wes)

27  
28 <sup>24</sup> Emphasis supplied. A full copy of the NARUC BP Resolution is included as Attachment 2.

<sup>25</sup> Consolidated Water Rates, EPA, at p. viii.

Owens, this rate base normalization will be accomplished by including the Commission authorized acquisition rate base in Corporate Office rate base, which is then allocated statewide to each district on a customer proportional basis. The portion of rate base not normalized will remain with the districts proposed for consolidation.

Q72. Why is California American Water making this request?

A72. In California Public Utilities Code section 2719, the California Legislature found that public water systems face the need to replace or upgrade system infrastructure to meet increasingly stringent state and federal drinking water laws and regulations relating to fire flow and protection. The Legislature also found that “increasing amounts of capital are required to finance the necessary investment” in such “infrastructure,” “(s)cale economies are achievable in the operation of public water systems,” and “(p)roviding corporations with an incentive to achieve these scale economies will provide benefits to ratepayers.”<sup>26</sup> Typically, the “incentive” allowed to achieve these scale economies is allowance for the full purchase price as rate base consideration. If an acquisition is consolidated into a single existing district, this rate base allowance can have a disproportionate effect on both the existing customers within that district and ultimately on the acquisition customers being consolidated. California American Water is making this request to ensure that increased revenue due to the acquisitions be spread over all customers of California American Water on a customer proportional basis, and not just be spread among the customers within the identified consolidation districts. This spreading of costs will help achieve the Legislature’s intent that scale economies provide benefits to all ratepayers without disproportionately impacting a smaller set of customers.

---

<sup>26</sup> Cal. Public Utilities Code Section 2719.

1 Please also refer to Section XI of the Direct Testimony of Stephen (Wes) Owens, for a  
2 complete discussion of the acquisition rate base normalization proposal.  
3

4 **F. Catastrophic Event Cost Normalization – Special Request #6**

5 Q73. What is California American Water proposing in regard to the cost normalization of  
6 catastrophic event costs?

7 A73. California American Water requests that the cost recovery associated with recent and  
8 future catastrophic event costs be done on a statewide basis. Catastrophic events are not  
9 isolated to one district or one specific rate area, but individual events can and have  
10 occurred across the State, whether it is wildfires, earthquakes, loss of water supply or  
11 other similar events. Requiring customers in an individual district, especially a small  
12 district, that survived a catastrophic event, to pay for all the additional costs of their  
13 neighbors who were impacted by a catastrophic event, can add very large undue burdens.  
14 California American Water believes that a predictable policy of helping mitigate the  
15 impacts of any and all specific catastrophic events, reducing or eliminating rate shock and  
16 rate volatility, while providing the type of support necessary in the time of greatest need  
17 is in all customers' interests.  
18

19 Q74. What specific costs and impacts is California American Water seeking to resolve by this  
20 Special Request?

21 A74. As addressed in more detail below, California American Water seeks recovery of costs  
22 recorded to its Catastrophic Event Memorandum Account ("CEMA"). Special Request  
23 #6 addresses the way in which the costs should be recovered. The CEMA request is  
24 addressed in Section III of the Direct Testimony of Michael Clarke. There are three  
25 categories of costs recorded to the CEMA for which the Company is seeking recovery.  
26 The costs recorded to the CEMA address: 1) wildfire related costs, 2) COVID-19  
27 financial impacts and 3) costs associated with the request for earthquake insurance. The  
28

requested earthquake policy and premiums are addressed in Section VI of the Direct Testimony of Stephen (Wes) Owens.

Q75. What costs are permitted to be recovered in the CEMA?

A75. The purpose of the CEMA is to recover the costs resulting from a catastrophic event declared a disaster or state of emergency by federal or state authorities, including costs relating to (a) restoring utility service to its customers; (b) repairing, replacing or restoring damaged utility facilities; and (c) complying with government agency orders resulting from declared disasters.<sup>27</sup> In addition to direct expenses, the Commission authorizes utilities to record “capital-related costs such as depreciation and return on capitalized additions” resulting from the restoration activities into CEMA accounts.<sup>28</sup> Direct expenses include straight-time labor, overtime labor, contract labor, and materials and supplies expenses. Capital-related expenditures result when the utility spends funds on capital projects that are necessary to replace, augment, or support its existing utility plant. However, utilities may not record any capital costs or expenses incurred prior to the start of the declared disaster or state of emergency.

Q76. Has the Commission provided water utilities guidance on how catastrophic costs should be recovered from customers?

A76. Yes. In D.19-07-015 (in Rulemaking R.18-03-011) the Commission adopted an emergency disaster relief program for electric, natural gas, water, and sewer utility customers. In its decision, the Commission approved recovery of costs recorded to the CEMA or Emergency Customer Protections Memorandum Account “across each utility’s entire customer base.”<sup>29</sup> The same ordering paragraph required the Company to make any

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<sup>27</sup> Resolution E-3238, July 24, 1991, p. 1 and p. 5, Ordering Paragraph 1.

<sup>28</sup> *Id.*, at p. 2.

<sup>29</sup> D.19-07-015, *Order Instituting Rulemaking Regarding Emergency Disaster Relief Program*, dated July 11, 2019 (“D.19-07-015”). Ordering Paragraph 10, p. 67.



necessary tariff changes in accordance with the Advice Letter procedures prescribed by General Order 96-B. California American Water subsequently filed Advice Letter 1267 to implement the requirements of the decision, which included changes to the applicability for CEMA recovery, and the Advice Letter was approved.

### **1. Sonoma County Wildfire (Kincaid)**

Q77. California American Water's Geyserville service area, located in Sonoma County, was impacted by the Kincaid wildfire in October 2019. Please provide details on the impacts and actions taken by California American Water.

A77. Governor Gavin Newsom proclaimed a state of emergency for Sonoma County in response to the Kincade fire, which was stoked by multiple high wind events. California American Water's Geyserville service area was placed under a mandatory evacuation order on October 24, 2019 and our Larkfield service area was placed under a mandatory evacuation order on October 27, 2019. The evacuation orders were lifted on October 30, 2019. Thanks to the terrific defense mounted by firefighters and other first responders, none of our customers lost structures or property during the fire. California American Water also did not suffer any damage to its property or infrastructure as a result of the Kincade Fire.

Q78. When did California American Water activate its CEMA?

A78. California American Water filed Advice Letter 1267 on November 8, 2019 to active its CEMA account to record extraordinary costs and activate customer protections.

### **2. Monterey County Wildfires (River, Carmel)**

Q79. California American Water's Monterey District was impacted by wildfires in August 2020. Please provide details on the extent of the damage and actions taken by California American Water.

1 A79. On August 19, 2020, Monterey County experienced a large wildfire that burned  
2 approximately 6,905 acres in the Carmel Valley over the course of a 20-day active  
3 period. California American Water experienced extensive damage to the restoration area  
4 at is former San Clemente Dam site. Approximately 80% of the plantings that were  
5 established as part of the completed project that removed the dam and restored the  
6 Carmel River were burned. Damage also included the majority of the former project's  
7 irrigation piping system and electrical equipment.

8  
9 Q80. When did California American Water activate its CEMA?

10 A80. California American Water filed Advice Letter 1308 on September 15, 2020, to active its  
11 CEMA account to record extraordinary costs and activate customer protections for its  
12 Monterey customers, as well as customers in its Geyserville, Hillview and Duarte  
13 services areas that had been subject to wildfire evacuation warnings. On September 15,  
14 2020, California American Water also sent the Commission's Executive Director  
15 additional information on the effects on facilities and estimated costs. Lastly, the  
16 Company's Garapata Service Area was threatened by the Colorado Fire in Big Sur in  
17 January 2022 but did not require activation of the CEMA.

18  
19 **3. COVID-19 Financial Impacts**

20 Q81. On March 4, 2020, Governor Newsom declared a State of Emergency to help the state  
21 prepare for the spread of COVID-19. Please provide details on the financial impacts and  
22 actions taken by California American Water in response to the COVID-19 emergency.

23 A81. In addition to the customer protections discussed in Section III of the Direct Testimony of  
24 Patrick Pilz, California American Water has continued communication efforts to inform  
25 customers about COVID-19 relief programs including CAP, crisis assistance, extended  
26 payment plans, the California Water and Wastewater Arrearage Payment Program  
27 ("CWWAPP") and Low-Income Household Water Assistance Program. California  
28 American Water obtained approximately \$6.3 million from the CWWAPP in COVID-19

1 arrearage relief funding that it was able to apply directly to customer accounts. The  
2 Direct Testimony of Garry Hofer at Section V describes some of the efforts undertaken  
3 by California American Water to keep employee and customers safe during the  
4 emergency.

5  
6 Q82. What is California American Water requesting with respect to the CEMA and impacts  
7 from COVID-19?

8 A82. In D.21-07-029, the Commission provided direction with respect to requests for recovery  
9 based on impacts from COVID-19:

- 10  
11 • Here, we provide guidance on one category of COVID-19 related costs, the  
12 unpaid customer bills, presumably currently being tracked in Class A water utility  
13 CEMAs. Before recovery, the CEMA will first need to be offset against 1) federal  
14 and state relief for water utility bill debt from the 2021 Coronavirus Recovery  
15 Fund, and distributed through the State Water Resources Control Board, 2)  
16 customer payments through payment plan arrangements, and 3) provisions for  
17 uncollectibles. All three of these offsets to unpaid bills associated with the  
18 COVID-19 period will require time to accrue, which means CEMA review should  
19 not occur before these processes have concluded. To the extent the Class A water  
20 utilities have engaged customers in payment plans with term lengths exceeding  
21 one year and wish to apply for CEMA recovery before the conclusion of the  
22 payment plan term, they may do so but may not include any unpaid bills  
23 associated with the payment plans in their recovery request. (Pages 60-61.)  
24  
25 • California Water Service Company, Golden State Water Company, San Jose  
26 Water Company, California-American Water Company, San Gabriel Valley  
27 Water Company, Suburban Water Systems, Liberty Utilities, and Great Oaks  
28 Water Company shall not file for recovery of unpaid bills associated with the

COVID-19 pandemic tracked in their Catastrophic Event Memorandum Accounts at least until state and federal funding appropriated in the California 2021/22 state budget for COVID-19 water utility bill relief has been disbursed and applied to customer accounts. (Ordering Paragraph 7.)

As noted above, California American Water has received and applied approximately \$6.3 million in CWWAPP relief to customer accounts. California American Water also addressed the uncollectible provision in accordance with ordering paragraph 9 in D.21-07-029. California American Water also sent communications to every customer to contact us about payment plans of up to one year. At this time, based on the directives in D.21-07-029 California American Water will not seek uncollectibles until all three of these offsets to unpaid bills associated with the COVID-19 period have “accrued,” and is only requesting recovery of the certain safety-related costs and loan interest, each of which is discussed in Section III of the Direct Testimony of Service Company witness Michael Clarke.

California American Water is also not requesting recovery of approximately \$5 million in foregone revenues tracked in the CEMA due to its inability to collect late fees based on Commission Resolution M-4849, which provides “fees that would have been (but were not) assessed during the Emergency Customer protections period shall not be back-billed (or otherwise charged) to customers after expiration of Emergency Customer Protections.”

**G. Memo Account to Ensure Consistent Treatment of Acquisitions Throughout the GRC Cycle – Special Request #7**

Q83. What does California American Water request to ensure consistent treatment regardless of where an acquisition occurs during the GRC cycle?

1 A83. California American Water requests establishment of the Acquisition Contingency  
2 Memorandum Account (“ACMA”). The ACMA would record the differences between  
3 revenues billed at current rates based on pre-acquisition rate base for customers of  
4 acquired water system and revenues that would have been billed based on the new, post-  
5 acquisition rate base and revenue requirement. This would apply to any acquisition  
6 subsequently approved by the Commission after a decision is issued in this GRC. Since  
7 in the case of the ACMA, the Commission would have rendered a decision on the  
8 acquisition as being in the public interest, California American Water also requests that it  
9 be permitted to file a tier 2 advice letter to recover any balances on an annual basis. The  
10 ACMA would permit timely review of balances in circumstances where acquisition  
11 approval is not perfectly synchronized with a GRC application.

12  
13 Q84. Why is California American Water making this request?

14 A84. California American Water has acquired and intends to seek to acquire small water  
15 systems in the State. Such acquisitions follow directives from the Legislature,  
16 Commission, and SWRCB. However, because the Company’s GRC process is on a  
17 three-year future test year cycle, the approval and integration of acquisitions does not  
18 always coincide with the regulatory calendar of the authorized test year. The  
19 Commission has acknowledged this fact and specifically held that it should consider  
20 consolidations outside of GRCs.<sup>30</sup> California American Water has acquired small water  
21 systems in the past where there was a difference between revenues billed under initial  
22 rates following the acquisition (rates based on the pre-acquisition rate base) and final  
23 authorized rates based on the post-acquisition rate base and revenue requirement. In the  
24 event a Commission decision approving an acquisition is not issued with sufficient time  
25 to allow for the sale to be reasonably included in California American Water’s next GRC  
26 filing, or in the event that the acquisition decision is issued well in advance of California  
27 American Water’s next GRC filing, the Company requests authority to establish a

28 <sup>30</sup> See D.20-08-047, pp. 85-86.

1 memorandum account to track lost revenue from all affected entities until the acquisition  
2 can be integrated for ratemaking purposes as part of a subsequent GRC. California  
3 American Water believes this is a reasonable contingency in the event that the sale does  
4 not close in time to incorporate the revenue requirements into this or subsequent GRC  
5 proceedings, or in the event that the acquisition is approved well before the filing of a  
6 subsequent GRC proceeding.

7  
8 Q85. Please explain how this requested memorandum account complies with the  
9 Commission's Standard Practice ("SP") U-27-W.

10 A85. Pursuant to Commission SP U-27-W, a request to establish a memorandum account must  
11 address the following:

- 12  
13 a. The item is caused by an event of exceptional nature not under the utility's  
14 control;  
15 b. It could not have been reasonably foreseen in the utility's last GRC and  
16 will occur before the utility's next scheduled rate case;  
17 c. It is of a substantial nature in the amount of money involved; and  
18 d. The ratepayer will benefit by the memorandum account treatment.

19  
20 Here, each of these requirements is met. First, the expense is caused by an event of an  
21 exceptional nature not under the utility's control. When acquisition decisions are issued  
22 is not within the utility's control. Similarly, the GRC cycles are set by statute and the  
23 Commission, not by the utility. Likewise, the timing of GRC decisions is determined by  
24 the Commission, not the utility. Thus, the expense is caused by an event of an  
25 exceptional nature that is beyond the utility's control.

26  
27 Second, the expenses in question here could not have been reasonably foreseen in  
28 California American Water's last GRC and would occur before the utility's next

1 scheduled case. As is noted above, California American Water only seeks establishment  
2 of this memorandum account as a contingency in cases where integration of an  
3 acquisition for ratemaking purposes could not have been included in the last GRC and  
4 will occur before the next GRC.

5  
6 Third, the expense is of a substantial nature as to the amount of money involved. The  
7 requested memorandum account would track the differences between revenues billed at  
8 current rates and revenues that would have been billed under the final rates that include  
9 the post-acquisition rate base and revenue requirement. The associated revenue  
10 requirement will likely consist of items including, but not limited to, return on  
11 investment, ad valorem tax, depreciation, other taxes and fees, and incremental operating  
12 expenses.

13  
14 Fourth, the ratepayers will benefit by the memorandum account treatment. Acquisitions  
15 by California American Water promote the public interest and are in line with  
16 Commission and SWRCB directives and findings, which recognize that the purchase of  
17 smaller utilities is important and provides benefits, including to ratepayers. Ensuring the  
18 appropriate recovery of costs associated with such transactions helps make such  
19 acquisitions possible. Further, a memorandum account provides for the tracking of costs  
20 for future Commission prudence and reasonableness review prior to cost recovery. Thus,  
21 customers will benefit from the acquisition and will benefit by the establishment of this  
22 account.

23  
24 Q86. What is the reason California American Water should be allowed to record revenue  
25 differences for customers of acquired water systems until the next GRC?

26 A86. First, if the Commission has approved the acquisition as being in customers' interests –  
27 both new and existing customers – then the recovery of just and reasonable costs should  
28 not be an issue. Requiring the Company to shoulder any revenue difference simply

1 because of the timing of the acquisition approval in relationship to the next test year  
2 would not be appropriate and would provide a disincentive for acquisitions. Second, the  
3 rate case cycle in California is lengthy, so the Company should not be penalized simply  
4 because the timing of the acquisition approval does not synchronize with a GRC  
5 application and the test year. The approvals of recent acquisitions by California  
6 American Water have ranged significantly. For example, the Rio Plaza Application  
7 (A.17-12-006, filed in December 2017) was not approved until April 25, 2019, the  
8 Fruitridge Application (A.17-10-016, filed in October 2017) was not approved until  
9 December 19, 2019, the Warring Application (A.20-04-017, filed in April 2020) remains  
10 pending, and the Bellflower Application (A.18-09-013, filed in September 2018) remains  
11 pending. Third, policy directives from the SWRCB and the Commission have  
12 encouraged the acquisition of small and/or troubled water systems. In addition, many of  
13 these small and/or troubled systems place a significant strain on the State through  
14 disproportionate use of low interest loans, grants, and other incentives. If California  
15 American Water is pursuing acquisitions in support of State policy and is part of the  
16 solution, it should not be denied recovery of just and reasonable costs. Lastly,  
17 acquisitions allow the spreading of approved costs over a larger customer base.

18  
19 Q87. Is the establishment of a memorandum account, like what is requested in the ACMA,  
20 consistent with Commission precedent?

21 A87. Yes. The Commission has approved rate plans in many prior acquisitions but I believe  
22 the memorandum account is a more precise method. California American Water, in at  
23 least two cases, has been authorized to increase rates as part of an acquisition. In A.02-  
24 05-058,<sup>31</sup> the Commission authorized a five-year rate plan that increased rates in each of

25  
26  
27 <sup>31</sup> The Commission authorized a five-year rate plan in D.03-02-044 *In re Application of California-*  
28 *American Water Company (U 210 W) for an Order (1) Expanding its Existing Certificate of*  
*Convenience and Necessity to Include the Provision of Wastewater Services to the Public*, Feb. 27,  
2003.



1 the acquired areas. This was addressed specifically in Ordering Paragraph 5, which  
2 stated:

3  
4 “Cal-Am shall file its wastewater rate schedule and related tariffs to serve the  
5 customers of the districts described in Ordering Paragraph 2 consistent with the  
6 “Five-year Interim Rate Schedule” set forth in Schedule 8.3 of the Purchase  
7 Agreements (Application, Tab G and H) and proposed tariff rules (Exhibit 1, Tab  
8 D). The tariff rules shall include all applicable tariffs related to providing sewer  
9 system service. Year 1 rates shall be effective upon completion of the acquisition  
10 and shall be in effect for the remainder of calendar year 2003.”<sup>32</sup>

11  
12 In addition to the above approval of a rate increase plan in the sewer system acquisition,  
13 the Commission approved a five-year plan in the acquisition of two Monterey County  
14 water systems by California American Water in Resolution W-4365. California  
15 American Water noted in its Advice Letter 565:

16  
17 “California-American is requesting to incrementally increase the rates to the  
18 customers of the Chualar system until they reach the same level as those in the  
19 Ralph Lane system. A summarization of the annual proposed rate increases, as  
20 approved by the County and the customers, is attached as Exhibit D. California  
21 American Water’s proposed tariff rates are lower than the rates the County would  
22 have had to charge the customers of both systems had the systems remained under  
23 its ownership. The comparison of rates, both under California American Water  
24 ownership and under the ownership of the County under its rates for the Ralph  
25 Lane system are included in Exhibit B. These tariff rates were approved by the  
26

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27 <sup>32</sup> D.03-02-044, *Granting CA American Water Company a CPCN to Provide Wastewater Service;*  
28 *Authorizing Acquisition of Wastewater Assets; and Adopting Rates*, March 6, 2003, p.17.

County in Section 8.3(b) of Exhibit A. These rates were also the focus of discussion at the public meetings held to assess the County’s proposal to sell the assets. As noted in the above paragraph, Cal Am received Commission approval to annually change rates in the newly acquired systems that were integrated. .”<sup>33</sup>

Similarly, in Resolution W-4998, the Commission granted conditional authority for Yermo Water Company (“Yermo Water”) to sell and Apple Valley Ranchos Water Company (“Apple Valley”) to buy the public utility assets of Yermo Water. Apple Valley proposed an interim rate plan for the Yermo Water service area from the time of the acquisition in 2014 until new rates would be put in place through a GRC for Test Year 2018. The proposed interim rate plan called for increases in both volumetric rates and the service charges over multiple years prior to the next rate case. Those increases during the interim period were requested to pay for system repairs and upgrades. The Commission authorized the interim rate plan for the period 2014 through 2017, i.e., until the next rate case, which is similar to what is being requested by California American Water in this proceeding.

#### **H. Utility Transaction Cost Memorandum Account – Special Request #8**

Q88. Please discuss California American Water’s acquisition of water and/or wastewater systems.

A88. California American Water has three pending applications to acquire water systems pending before the Commission. Those are applications (1) to acquire the Bellflower Municipal Water System (A.18-09-013), where a settlement between California American Water and Cal Advocates awaits a Commission decision; (2) to acquire Warring Water Services, Inc.’s system (A.20-04-017), where the Cal Advocates withdrew its opposition in the proceeding; and (3) to acquire Bass Lake Water

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<sup>33</sup> Ordering Paragraph 5 of D.03-02-044, page 17

1 Company's system (A.22-03-002), where Cal Advocates did not file a protest to the  
2 application.

3  
4 In addition to the three pending applications to acquire water systems, California  
5 American Water received Commission approval to acquire several systems in recent  
6 years. From 2013 to 2021, that included approvals to acquire Garrapata's system (D.13-  
7 01-033), Oxbow's system (Resolution W-5042), Adams Ranch Mutual Water's system  
8 (Resolution W-5080), Dunnigan Water Works' system (D.15-11-012), Geyserville Water  
9 Works' system (D.16-11-014), Meadowbrook Water Company of Merced, Inc.'s system  
10 (D.16-12-014), Rio Plaza Water Company, Inc.'s system (D.19-04-015), Fruitridge Vista  
11 Water Company's system (D.19-12-038), Hillview Water Company's system (D.19-11-  
12 003), and East Pasadena Water Company's system (D.21-08-002).

13  
14 California American Water's acquisitions advance important legislative and Commission  
15 interests. In Public Utilities Code Section 2719, the Legislature found and declared (1)  
16 public water systems face the need to replace or upgrade infrastructure to meet  
17 increasingly stringent state and federal laws and regulations, (2) increasing amounts of  
18 capital are required to finance the necessary investment in that infrastructure, (3) scale  
19 economies are achievable in the operation of public water systems, and (4) giving water  
20 corporations an incentive to achieve these scale economies provides benefits to  
21 ratepayers. Similarly, the State Water Resources Control Board ("SWRCB") Resolution  
22 No. 2008-0048 states: small water systems (1) often cannot provide the economies of  
23 scale necessary to build and maintain adequate water and wastewater systems; (2) lack  
24 resources and in-house expertise, including those necessary to best manage long-term  
25 operations; and (3) need financial and technical assistance to ensure compliance. As the  
26 Commission noted in D.20-08-047: "Consolidation may be a means to improve  
27 affordability, by leveraging greater economies of scale and scope, and by importing best,  
28 or better, practices related to operating a water utility, as well as designing rates to allow

1 recovery of reasonable expenses.”<sup>34</sup> Thus, the consolidation of smaller water systems  
2 into larger ones, such as California American Water, provides substantial benefits.

3  
4 Q89. Do California American Water’s acquisitions of smaller water systems involve  
5 transaction costs?

6 A89. Yes. Such costs are inescapable. They are most often incurred for outsourced services.  
7 Outsourced legal services typically involve the purchase agreement as well as closing and  
8 transfer-related documents. Other outsourced services usually concern the appraisal,  
9 survey work, noticing, and other tasks needed to complete the acquisitions. Many of  
10 these transaction costs – and usually the largest amounts – are for items the Commission  
11 requires California American Water to perform in connection with an acquisition. For  
12 example, in most recent acquisitions, the appraisal was the most significant component of  
13 the transaction costs.

14  
15 The Commission’s guidelines for water system acquisitions state that water utilities  
16 submitting applications for Commission approval should provide an appraisal.<sup>35</sup>  
17 Similarly, noticing is typically required for acquisitions.<sup>36</sup> In D.20-08-047, the  
18 Commission approved a standardized set of disclosures to accompany acquisition  
19 application for water utilities. Those disclosures include the requirement that applicants  
20 “[p]rovide a breakdown of the estimated transaction and closing costs. Provide invoices  
21 to support any transaction and closing costs that have already been incurred.”  
22 Unfortunately, the Commission’s guidelines do not explain how utilities are to recover  
23 transaction costs.

24  
25 \_\_\_\_\_  
26 <sup>34</sup> D.20-08-047, p. 85.

27 <sup>35</sup> See D.99-10-064, Appendix D, Section 2.05 (which states: “The Parties agree that the filing of each  
application should include an appraisal, together with all supporting materials and workpapers....”)

28 <sup>36</sup> Id. at Section 4.03 (which states: “Notice of a proposed acquisition should be given to all affected  
customers at the time when any advice letter or application is filed with the Commission....”)

1 Q90. To recover acquisition transaction costs, do California American Water's acquisition  
2 applications request permission to establish a memorandum account to track acquisition-  
3 related transaction costs?

4 A90. Yes. California American Water's acquisition applications typically ask the Commission  
5 to authorize California American Water to establish a transaction cost memorandum  
6 account, pursuant to Commission Standard Practice U-27-W, to track all transaction  
7 related costs related to that specific acquisition with rate treatment determined in  
8 California American Water's subsequent general rate case.

9  
10 Q91. Are Commission decisions consistent in ruling on California American Water's requests  
11 for memorandum accounts to track transaction costs?

12 A91. No. The Commission's decisions are inconsistent. The most common result in decisions  
13 specifically addressing the issue has been for the Commission authorize California  
14 American Water to establish a memorandum account to track *all* transaction costs for  
15 possible future recovery.<sup>37</sup> Yet not all decisions go this far. In one decision, the  
16 Commission recently authorized California American Water to track only *some* costs,  
17 i.e., post-decision transaction costs because the Commission in that decision did not  
18 believe tracking pre-decision costs could be allowed.<sup>38</sup> Similarly, in another recent  
19 decision the Commission authorized a transaction cost memorandum account but only  
20  
21

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22 <sup>37</sup> These allowed California American Water to track all transaction-related costs not previously  
23 authorized California American Water in a general rate case. For example in approving California  
24 American Water's acquisition of Rio Plaza Water Company, the Commission found "Cal-Am's  
25 request to establish a transaction memorandum account is consistent with the Commission's Standard  
26 Practice U27W. Accordingly, Cal-Am is authorized to establish a transactional memorandum  
27 account to track all costs resulting from the purchase transaction of Rio Plaza." (D.19-04-015, p. 35;  
see also Ordering ¶11 on p. 48.) Likewise, in approving California American Water's acquisition of  
Fruitridge Vista's water system, the Commission authorized California American Water to establish a  
transaction memorandum account "to track transactional costs associated with the acquisition."  
(D.19-12-038, p. 19, see also Ordering ¶5 on p. 26).

28 <sup>38</sup> See D.20-04-003, pp. 35-36; see also Ordering ¶10 on p. 46 (Only permitting inclusion of post-  
decision transaction costs incurred by California American Water).

1 allowed costs incurred post-filing of the application to be tracked.<sup>39</sup> Another outlier  
2 decision refused to permit California American Water to establish a memorandum  
3 account for tracking *any* transaction costs.<sup>40</sup> The Commission also recently issued a  
4 decision following a rulemaking. That decision required applicants seeking Commission  
5 approval to acquire a water system to, with their applications, provide information on  
6 transaction costs as well as documentation of such costs incurred before the application's  
7 filing.<sup>41</sup> The decision did not discuss how those costs may be recovered. It would,  
8 however, not make sense to require reporting on and documentation of costs that the  
9 Commission would not allow a utility to recover. That would needlessly waste utility  
10 and Commission time and resources. Thus, in the absence of clear direction on how such  
11 costs are to be recovered, California American Water now addresses the issue and seeks  
12 to establish a fair and consistent process for the tracking, review, and recovery of  
13 reasonable and prudent transaction costs.

14  
15 Q92. Please describe the relevance of the recently approved acquisition of the Sativa water  
16 system by Suburban in D.22-04-010. How does this decision impact California  
17 American Water's request for a single transaction cost memorandum account for all  
18 future acquisitions?

19 A92. In approving Suburban Water System's acquisition of Sativa, the Commission did at least  
20 two important things relating to transaction memorandum accounts. First, the  
21 Commission reaffirmed that memorandum accounts to track transaction costs in  
22 acquisition proceedings meet Standard Practice U-27-W's requirements for establishing a  
23 memorandum account. Specifically, expenses in such instances are beyond the utility's  
24 control.<sup>42</sup> As the Commission noted: "When a smaller water system is acquired, there

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25  
26 <sup>39</sup> See D.22-04-010, p. 28; p. 43, Ordering ¶8.

27 <sup>40</sup> See D.19-11-003, pp. 9-10; see also Conclusion of Law ¶6 on p. 13.

28 <sup>41</sup> D.20-08-047, p. 85.

<sup>42</sup> D.22-04-010, p. 27.

1 are inherent transaction costs.”<sup>43</sup> Likewise, the Commission found that “[t]hese costs  
2 have been and will be incurred between rate cases.”<sup>44</sup> And the transaction expenses  
3 could not have been foreseen in the utility’s previous GRC and are likely to be incurred  
4 before the utility’s next GRC cycle.<sup>45</sup> The Commission determined that transaction costs  
5 were of a substantial nature.<sup>46</sup> The Commission also found that purchase “promotes the  
6 Commission’s and SWRCB’s goals and directives which encourage the purchase of  
7 smaller water utilities,” and that “[r]atepayers will benefit from the memorandum account  
8 as it allows for the tracking of costs for future prudence and reasonableness review by the  
9 Commission prior to cost recovery.”<sup>47</sup> The Commission’s findings in D.22-04-010 also  
10 apply in the context of California American Water’s recent acquisitions. As the  
11 acquisitions are events of exceptional nature beyond California American Water’s  
12 Control. The transaction costs could not have been reasonably foreseen in California  
13 American Water’s last GRC and will occur before its next scheduled GRC. The  
14 transaction costs are of a substantial nature. And the ratepayers will benefit by the  
15 memorandum account treatment. Thus, the Commission should approve a standing  
16 memorandum account to track such costs.

17  
18 The second thing the Commission did in D.22-04-010 with respect to transaction cost  
19 memorandum accounts was provide another possibility for when costs could first be  
20 tracked. Whereas, as noted above, other decisions allowed either all costs (regardless of  
21 when incurred) to be tracked or only post-decision costs to be tracked, D.22-04-010  
22 offered another option. It ruled only post-application costs could be tracked.<sup>48</sup> It did so

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23  
24 <sup>43</sup> Ibid., emphasis supplied.

25 <sup>44</sup> Ibid.

26 <sup>45</sup> Ibid.

27 <sup>46</sup> Ibid.

28 <sup>47</sup> Ibid.

<sup>48</sup> Id. at p. 28.

1 to avoid any possibility of retroactive ratemaking because a memorandum account to  
2 track the costs and a request for one did not occur until the application was filed.<sup>49</sup> It did  
3 not indicate in any way that pre-application costs were otherwise inappropriate for  
4 tracking or otherwise would not satisfy the standards for establishing a memorandum  
5 account. This highlights why California American Water's request for a standing  
6 transaction cost memorandum account is warranted. The Company has completed  
7 several acquisitions in recent years. Commission, SWRCB, and Legislative policy all  
8 favor completing more acquisitions in the future. The Commission has recognized that  
9 transaction costs are "inherent" in water system acquisitions and beyond the utility's  
10 control.<sup>50</sup> By establishing on transaction memorandum account for future transactions,  
11 such an account will already be established before the applications in those acquisition  
12 proceedings are filed. This is critical because that is when a substantial portion (often  
13 most) acquisition costs for things such as the mandatory appraisal occur. As such, a  
14 permanent transaction memorandum account would allow for the tracking of all  
15 transaction related costs (without raising any retroactive ratemaking issues) and the  
16 review of those costs by the Commission to ensure they were reasonably and prudently  
17 incurred before any recovery of them could take place.

18  
19 Q93. What process do you recommend for the recovery of transaction-related costs associated  
20 with water and/or wastewater utility acquisitions?

21 A93. In light of previous Commission Decisions, the process that makes the most sense is to,  
22 in this GRC proceeding, establish a single Utility Transaction Cost Memorandum  
23 Account ("UTCMA") for all future California American Water acquisitions. As with any  
24 cost tracked in a memorandum account, that would not guaranty recovery of transaction  
25 that cost. It simply permits tracking it. Recovery would then occur only after the  
26 Commission, such as in a GRC proceeding, reviews each of the tracked costs and

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27 <sup>49</sup> See *ibid.*

28 <sup>50</sup> *Id.* at p. 27.



1 determines each is reasonable and was prudently incurred. This is probably the most  
2 accurate way to ensure recovery of actual costs.

3  
4 As noted above, this proposed process of creating a single Utility Transaction Cost  
5 Memorandum Account is in line with the approach taken in most recent decisions  
6 addressing California American Water's previous requests concerning transaction costs.  
7 As noted above, where California American Water requested authorization to establish a  
8 transaction memorandum account for possible future recovery of transaction costs, the  
9 most common approach has been to allow California American Water to establish the  
10 account and to track all transaction costs for a given acquisition. A variant of that  
11 approach occurred in the decision approving California American Water's acquisition of  
12 the East Pasadena Water Company. There, the Commission approved the request to  
13 establish a transaction memorandum account, but the Commission limited the costs to be  
14 tracked in the account.<sup>51</sup> The Commission limited the costs to those incurred after the  
15 memorandum account was established because the Commission did not think it had the  
16 authority to allow for tracking of costs incurred before creation of the memorandum  
17 account.<sup>52</sup> Similarly, in the Commission's approval of Suburban's acquisition of Sativa,  
18 the Commission adopted another variant by approving a transaction cost memorandum  
19 account but only allowing the tracking of post-acquisition incurred costs.<sup>53</sup>

20  
21 Because the UTCMA proposed in this GRC would be established before any subsequent  
22 acquisitions are filed, that would permit future acquisitions to track all transaction costs  
23 and addresses the issue raised in the East Pasadena and Sativa decisions. In addition, this  
24 would cut down on the number of memorandum accounts, consolidating what would  
25 potentially be several separate accounts into a single account. As noted above, it is also

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26 <sup>51</sup> D.20-04-003, pp. 35-36; see also Ordering ¶10 on p. 46.

27 <sup>52</sup> Ibid.

28 <sup>53</sup> D.22-04-010, p. 28.

important that the memorandum account will be able to track *all* transaction-related costs, because in typical acquisitions the majority of costs are incurred before a decision is issued in the proceeding. So having to wait for a decision or until the application is filed in each acquisition before costs could be tracked would not fully address the issue of a process to review all reasonable and prudent transaction costs.

Q94. Please summarize the specific requests within the proposed UTCMA.

A94. California American Water believes that a single account to track all transaction costs associated with pending and future acquisitions would provide many benefits by streamlining the regulatory process and ensuring consistent treatment. Second, California American Water proposes that all existing transaction cost accounts be consolidated into the UTCMA.<sup>54</sup> Each acquisition would be handled within a separate sub-account of the UTCMA. The Direct Testimony of Michael Clarke addresses the recovery of existing balances as of May 31, 2022.

Q95. If for some reason, the Commission does not approve establishment of the single UTCMA discussed above, how should it address recovery of acquisition-related transaction costs.

A95. As noted above, approval of the UTCMA is probably the most accurate means of ensuring recovery of transaction costs. If the Commission does not approve establishment of that account, it should allow for transaction costs incurred in acquisitions to be included in future forecasts and recovered based on those forecasts.

#### **I. Placer County Water Agency (“PCWA”) Capacity Cost Recovery – Special**

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<sup>54</sup> This would include the Rio Plaza Transaction Memorandum Account, the Fruitridge Vista Transaction Memorandum Account, the East Pasadena Transaction Memorandum Account

**Request #9**

Q96. Please describe what California American Water is requesting in regards to its contractual obligations for water supply in West Placer County?

A96. California American Water requests the Commission's clarification that the appropriate interest rate or carrying costs on its investment in water supply capacity from PCWA should be at the Company's authorized rate of return. The West Placer Special Facilities Fee Memorandum Account was established to record all costs associated with purchasing additional capacity from PCWA. The costs are offset by the total amount of contributions made to the Company by customers. Commission Resolution W-5111, dated October 13, 2016, approved language that the memorandum account should "include all earnings from the allowance for funds used during construction ("AFUDC"), which would indicate the costs used to finance the net balances. However, at the same time the approved preliminary statement indicates that the West Placer Special Facilities Fee Memorandum Account should record interest at the 90-day commercial paper rate. Additionally, California American Water requests an effective date for this change in the AFUDC rate be made effective as of April 1, 2022. The timing of the effective date is to ensure no harm to current customers.

Q97. Why is California American Water making such a request in this proceeding?

A97. California American Water is making this request for two reasons. Most importantly, this request is made to ensure current customers are not impacted by the cost of growth in the Placer County area of the Sacramento District and that all costs of development are paid for by the development in the area where such needed capacity is purchased. Second, this request is being made to provide a full explanation of the need for and historical support for the use of a full rate of return AFUDC rate on these investments.

1 Q98. Is growth in California American Water's Placer County Service Area resulting in the  
2 need for California American Water to make increased purchases for the rights to  
3 additional capacity from PCWA and thus a renewed focus on process for such purchases?

4 A98. Yes. As noted in Section III.A of the Direct Testimony of Garry Hofer, source  
5 requirements in the area restrict California American Water's use of groundwater, so the  
6 Company must rely on surface water provided by PCWA. The agreement allowing  
7 California American Water to purchase water from PCWA ("PCWA Agreement")  
8 requires that California American Water first purchase Units of Capacity (essentially the  
9 right to purchase fixed daily amounts of water) from PCWA. With increased  
10 development in its Placer County service area and greater use of water to support that  
11 development, California American Water has in recent months needed to purchase  
12 several hundred additional Units of Capacity from PCWA. California American Water  
13 purchased some of these Units of Capacity with funds received from developers pursuant  
14 to the Company's Rule 15 special facilities fees. To comply with the PCWA Agreement,  
15 however, California American Water also needed to purchase additional Units of  
16 Capacity for which it has yet to receive Rule 15 special facilities fees. Those costs are  
17 being tracked in the West Placer Special Facilities Fee Memorandum Account for future  
18 recovery. It is important that recovery come from developers as they should bear the  
19 obligation for supporting the cost of additional Units of Capacity needed to support  
20 current and future development.

21  
22 Q99. Please provide the background on the current West Placer Special Facilities Fee  
23 Memorandum Account.

24 A99. California American Water requested through Advice Letter 1124-A, that the  
25 Commission approve the establishment of a Special Facility Fee for new development in  
26 the West Placer area, and in addition, a Special Facilities Fee Memorandum Account.  
27 The Commission approved both the fee schedule and the memorandum account in  
28 Resolution in W-5111, approved on September 29, 2016. In this Resolution the

1 Commission stated “PURPOSE: The Memorandum Account will be used to record all of  
2 the costs associated with purchasing additional capacity from Placer County Water  
3 Agency (PCWA). These costs will be offset by the total amount of the contributions  
4 made to the company by customers. If Cal-Am’s customer in the service area’s potable  
5 surface water demand reaches the Maximum Delivery Rate of 80 percent or Maximum  
6 Day Demand, Cal-Am can purchase additional capacity to accommodate the increased  
7 volume and flows. In addition, it will include all earnings from the allowance for funds  
8 used during construction (AFUDC).”  
9

10 Q100. What was the underlying rationale for the approval of this memorandum account?

11 A100. The underlying rationale for this memorandum account, as explained in Resolution W-  
12 5111, is “Nevertheless, we find that the requested relief in AL 1124 is reasonable because  
13 the expenses that will be incurred are not within Cal-Am’s control and will be substantial,  
14 due to anticipated customer growth and demand within the area designated by the  
15 purchased water agreement.” Thus, the Commission acknowledges that California  
16 American Water does not have control over the need for or the timing of the need to  
17 purchase additional capacity and that the need for such capacity is the result of customer  
18 growth.  
19

20 Q101. Please explain what has changed in regards the expectations of the memorandum account  
21 approved in Resolution W-5111 and the situation as it now exists in the need for  
22 additional PCWA capacity?

23 A101. As noted in Section III of the Direct Testimony of Garry Hofer, California American  
24 Water has had to start purchasing water supply capacity far in excess, and far in advance,  
25 of the connection fees that are provided by developers for water service in West Placer  
26 service area.  
27  
28

1 Q102. What is the impact of this need to purchase capacity in advance of the connection fees  
2 being received by California American Water?

3 A102. The result of this payment for capacity in advance of the receipt of connection fee  
4 payments is that California American Water is “fronting” significant capital to purchase  
5 capacity in advance of the offsetting connection fees that are meant to pay for such  
6 capacity. This results in California American Water funding the purchase of the needed  
7 capacity with its’ own debt and equity. This purchase with internal debt and equity is  
8 therefore acting as a current investment by California American Water for the support of  
9 future customers’ needs.

10  
11 Q103. What is the current AFUDC rate that is applicable to the Special Facilities Fee  
12 Memorandum Account?

13 A103. As noted in California American Water Preliminary Statement item AK, Special  
14 Facilities Fee Memorandum Account, under Section 4.a.3, “A debit or credit entry equal  
15 to the interest on the balance in the account at the beginning of the month and half the  
16 balance after the above entries, at a rate equal to one-twelfth of the rate on 90-day  
17 Commercial paper, as reported in the Federal Reserve Statistical Release, H. 15 or its  
18 successor.”

19  
20 Q104. Does the current 90-day Commercial paper rate provide California American Water  
21 Company with a full recovery of its investment in PCWA capacity?

22 A104. No. The 90-day Commercial paper rate is applicable to memorandum accounts under the  
23 assumption that the balance in the account over time will be near zero with times when it  
24 is over collected and times when it is under collected. This is not the case with PCWA.  
25 What is transpiring in Placer County is that the need for capacity is by far exceeding the  
26 ability to collect connection fees to offset the capacity need. The result is that the  
27 investment in capacity results in a continuing debit balance in the memorandum account.  
28 This debit balance means that California American Water is now funding capacity on an

1 ongoing basis for development in the Placer County area. This results in a situation that is  
2 no different than any other capital investment which is fully funded with long-term debt  
3 and equity. To ensure that the financial integrity of California American Water is not  
4 impacted, the full AFUDC rate should be applied to any payments made to PCWA in  
5 advance of connection fees received for development in Placer County.  
6

7 Q105. Is there Commission precedent that supports that a full rate of return AFUDC rate be  
8 applicable to this memorandum account?

9 A105. Yes. As stated in the Commission's Policy and Planning Divisions' *Utility General Rate*  
10 *Case – A Manual for Regulatory Analysis* (November 13, 2017) "The statutory authority  
11 to establish just and reasonable rates require the Commission to set rates sufficient to  
12 cover the prudent costs of providing utility service. Included in the cost of providing  
13 service is a return on capital used to finance purchase of plants and assets. Investors  
14 expect a reasonable return on their capital investment. The Commission is mandated by  
15 statute to ensure that utilities are able to attract capital by offering an adequate or fair rate  
16 of return to investors. This mandate stems from the Supreme Court in the Bluefield and  
17 Hope decisions."<sup>55</sup>  
18

19 Further the same document states; "Utilities in California are allowed to accumulate  
20 financing cost through AFUDC for future recovery."<sup>56</sup>  
21  
22  
23  
24  
25

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26 <sup>55</sup> Policy and Planning Divisions' *Utility General Rate Case – A Manual for Regulatory Analysis*  
27 (November 13, 2017) Page 6, Chapter 1, Section 3.

28 <sup>56</sup> Policy and Planning Divisions' *Utility General Rate Case – A Manual for Regulatory Analysis*  
(November 13, 2017) Chapter 2 Page 28, Section2, part 5c.

1 Additionally, the same manual states; “The Allowance for Funds Used During  
2 Construction (AFUDC) allows utilities to accumulate or accrue on their books their  
3 financing costs for future recovery.”<sup>57</sup>.

4  
5 Finally, the manual states:

6  
7 “The Bluefield decision states that a public utility should be provided an  
8 opportunity to earn a return necessary for it to provide utility service. The Court  
9 stated:

10  
11 “The return should be reasonably sufficient to assure confidence in the  
12 financial soundness of the utility, and should be adequate, under efficient  
13 and economical management, to maintain and support its credit and enable  
14 it to raise money necessary for the proper discharge of its public duties.”

15  
16 The Hope decision reinforces the Bluefield decision and it emphasizes that such  
17 returns should be commensurate with returns available on alternate investments of  
18 comparable risks. The idea is based on the basic principle in finance that rational  
19 investors will only invest in a particular investment opportunity if the expected  
20 return on that opportunity is equal to the return investors expect to receive on  
21 alternative investments of comparable risk. The Hope decision states:

22  
23 “The return to the equity owner should be commensurate with returns on  
24 investments in other enterprises having corresponding risks.”

25  
26  
27  
28 <sup>57</sup> Policy and Planning Divisions’ *Utility General Rate Case – A Manual for Regulatory Analysis*  
(November 13, 2017) Chapter 2 Page 27, Section2, part 5c.



Two standards emerge from these decisions. First, return should be adequate to enable a utility to attract investors to finance the replacement and expansion of a utility's facilities to fulfill its public utility service obligation. Second, to attract capital a utility should be able to offer returns to investors comparable to those achieved on alternative investments of comparable risk. Utilities use long-term capital such as bonds, preferred stocks, and common equity to finance investment in physical plant and assets (rate base) needed to provide utility service. The return component of revenue requirement is intended to pay the interest on debt, the dividend on preferred stock and provide a fair rate of return on equity stock.”<sup>58</sup>

The Commission has fully recognized that a utility should be able to recover its costs to provide service. In this case, California American Water is being required to fund additional capacity in West Placer County with long-term debt and equity and this required funding should be recovered in some form from those requiring the funds to be provided. In this case that funding is required to provide capacity for growth and as such all cost of such funding should be recovered from the growth in the area. To recover the funding costs, the full rate of return AFUDC rate should be applied to the memorandum account. Applying the full rate of return to the memorandum account will further ensure growth pays for growth and current customers are not being required to pay for growth when a development exists to pay for the costs.

**J. Rate Mitigation Plan for Recently Acquired Systems – Special Request #10**

**1. Meadowbrook Rate Design**

Q106. Please describe California American Water's request regarding its recently acquired water systems.

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<sup>58</sup> Policy and Planning Divisions' *Utility General Rate Case – A Manual for Regulatory Analysis* (November 13, 2017) Chapter 2 Page 28-29, Section2, part 5e.

1 A106. First, California American Water requests that the approved consolidation of  
2 Meadowbrook customers onto the Northern Division tariff and rates be delayed for this  
3 rate case to mitigate the rate impact. Specifically, the Company would like the flexibility  
4 to move Meadowbrook customers on to the Northern Division tariff when appropriate to  
5 balance the needs for further conservation with the impact to customer bills, reflecting the  
6 socioeconomic factors of our Merced County customers. Second, California American  
7 Water requests to define the applicability of certain surcharges for our recently acquired  
8 systems as explained more below.

9  
10 Q107. Before discussing the details and rationale for this request, please provide the regulatory  
11 history from acquisition through today.

12 A107. On December 1, 2016, the Commission approved the acquisition of the Meadowbrook  
13 Water Company of Merced, Inc. by California American Water through approval of  
14 D.16-12-014. This decision also approved the consolidation of the Meadowbrook service  
15 area into California American Water's Sacramento District for ratemaking purposes and  
16 into its Northern Division (of which the Sacramento District is a part) for operational  
17 purposes.<sup>59</sup> In addition to consolidating the Meadowbrook customers into the  
18 Sacramento District's revenue requirement, it also would have meant moving them onto  
19 the Sacramento District's rate design and rates. Because the average customer  
20 consumption of the acquired Meadowbrook system was so much higher than that of the  
21 existing Sacramento District customers, moving them immediately to Sacramento rates  
22 would have resulted in an average rate increase of 236%. Thus, in the 2016 GRC (D.18-  
23 12-021), the Commission approved California American Water's request to maintain the  
24 current Meadowbrook rate design through 2020. In the 2019 GRC (D.21-11-024), the  
25 Commission approved California American Water's request to defer consolidation to this

26  
27  
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 <sup>59</sup> D.16-12-014, pp. 5-6.

1 current GRC.<sup>60</sup> California American Water believes that the rate impacts to the  
2 Meadowbrook customers are still too high.

3  
4 Q108. Why does California American Water support delaying the move of the Meadowbrook  
5 customers onto Sacramento District rates beginning in 2024.

6 A108. California American Water recognizes the need to bring the existing Meadowbrook  
7 consumption more in line with its Sacramento customers. California American Water  
8 has implemented conservation measures in this district. The rate design was also  
9 modified to include a third volumetric tier. Among the conservation programs California  
10 American Water has started to offer to the Meadowbrook service area's customers are  
11 free WaterWise HouseCalls, free conservation phone consultations, free conservation  
12 devices and leak detection kits, various conservation themed webinars and recently a new  
13 instant rebate program for Rachio Smart irrigation controllers. California American  
14 Water has also extended its low income Water/Energy Direct Install Program to its  
15 Meadowbrook service area and has retrofitted 47 homes with Energy and Water  
16 efficiency upgrades and indoor/outdoor leak assessments. California American Water  
17 believes progress is being made and that rate design must be gradual to balance the  
18 desired efficiencies while not unduly burdening customers that are largely low and  
19 middle income.  
20

21 Q109. What would be the average bill impact for Meadowbrook customers, if they were moved  
22 to the Sacramento rates in 2024?

23 A109. Table 3 provides the impact if Meadowbrook customers were moved to the Sacramento  
24 district rate design in Test Year 2024.  
25  
26  
27

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<sup>60</sup> D.21-11-024, Section 14.8, pp. 151-152.

**Table 3**

Meadowbrook Average Residential Usage (CGL)	Current Bill	Proposed Bill	Meadowbrook's Bills under Sacramento's Proposed Rates
114.41	\$ 56.28	\$ 62.81	\$ 92.84

Q110. What elements of the approved rate consolidation of the Meadowbrook district is California American Water seeking to change?

A110. California American Water seeks to delay moving Meadowbrook customers onto Sacramento rates and a separate stand-alone rate design for Meadowbrook customers that mirrors the three-tier rate design for Sacramento District customers but is set based on the specific consumption profile of our Meadowbrook District. The Meadowbrook rate design is discussed in Section X of the Direct Testimony of Bahman Pourtaherian. Additionally, as discussed in Section VIII of the Direct Testimony Patrick Pilz, conservation programs will continue to be directed to our customers in Meadowbrook along with educating them on the critical, local water supply issues.

Q111. Please describe what those critical, local water supply issues are.

A111. The Meadowbrook system is completely reliant on groundwater from the Merced Groundwater Sub-Basin. The Sub-Basin is one of 21 basins in the State of California identified by the California Department of Water Resources as critically over-drafted and one of 48 basins considered high priority. Consistent with the requirements of the Sustainable Groundwater Management Act ("SGMA"), water management and land management agencies in the Merced Sub-Basin have formed three Groundwater Sustainability Agencies ("GSAs"): the Merced Irrigation-Urban Groundwater Sustainability Agency ("MIUGSA"); the Merced Sub-basin Groundwater Sustainability Agency ("MSGSA"); and the Turner Island Water District Groundwater Sustainability Agency. The three GSAs developed one Groundwater Sustainability Plan ("Plan") for the entire Merced Groundwater Sub-Basin and filed it in January 2020. In developing the

1 Plan, the GSAs reviewed groundwater conditions and identify means to ensure the long-  
2 term sustainability of the Merced Groundwater Sub-Basin. In January 2022, DWR  
3 identified some deficiencies in the Plan and asked for additional information by the end  
4 of June 2022.

5  
6 Portions of Meadowbrook's service area are included in both the MIUGSA and the  
7 MSGSA, with most connections and production facilities in the MIUGSA boundary.  
8 California American Water attends the monthly Stakeholder Committee meetings to  
9 ensure that the interests of Meadowbrook customers are considered in the process. It is  
10 estimated that the sustainable yield of the sub-basin is about 530,000 AF annually, which  
11 includes 130,000 AF of developed surface water supplies. This sustainable yield is  
12 believed to be significantly less than current pumping. To meet the goals of SGMA, it is  
13 likely that the 400,000 AF of groundwater will be allocated among the various users.  
14 The current target is for allocations to be finalized in 2025 and become effective in 2030.

15  
16 Q112. Why is California American Water convinced this SR will be successful in reducing  
17 customer demand, mitigating rate impacts, while not burdening its other customers in the  
18 Northern Division?

19 A112. California American Water has extensive experience in managing conservation and  
20 conservation rate design. In Section VIII of his testimony, Patrick Pilz discusses the  
21 experience learned from our other districts and the plan to address the challenges in  
22 Meadowbrook. Implementing a conservation rate design that further adjusts  
23 consumption in the step and attrition years will send the price signals needed for  
24 customers to adjust behaviors and expectations. Also, it will spread out the rate impact,  
25 empowering customers with the tools to improve water use efficiency. Lastly, in  
26 accordance with D.18-12-021, Meadowbrook customers who qualify can now sign up for  
27 the Company's CAP. The CAP provides a 20% discount to the meter charge and tier 1  
28

1 and 2 usage. These discounts should also provide added assistance for customers to  
2 adjust usage to stay within the tier 2 rate and receive the discount.

3  
4 Q113. How is California American Water addressing the rate design for its other recently  
5 acquired water systems?

6 A113. While California American Water intends to move recently acquired systems on to the  
7 adjacent Divisional rate designs, there is a recognition that rate design changes often must  
8 be gradual to balance customer bill impacts. In addition to our Meadowbrook district,  
9 California American Water proposes separate rate designs for the four newly acquired  
10 systems in this GRC, namely East Pasadena, Bellflower, Warring and Bass Lake. In  
11 addition, the Company proposes separate rate design and rates for its Meadowbrook and  
12 Fruitridge Vista customers in the Northern Division. The policy is to gradually move  
13 these districts to the adjacent Division rate design over time. More information on these  
14 and other rate design proposals are addressed in Section X of the Direct Testimony of  
15 Bahman Pourtaherian.

## 16 17 **2. Surcharges Related to Recently Acquired Systems**

18 Q114. Please describe what California American Water is requesting related to surcharges for its  
19 recently acquired systems?

20 A114. California American Water proposes that all recently acquired systems should be eligible  
21 for its CAP. The CAP surcharge should apply to the non low income customers in the  
22 respective districts and the qualifying customers should be able to participate in the CAP  
23 program. This is one of the benefits of acquisitions acknowledged by the Commission.  
24 Similarly, California American Water proposes that other applicable surcharges apply to  
25 these acquired systems as well. This would include CEBA surcharge for the adjacent  
26 Division. This would also be the case for any M-WRAM and FCBA/ICBA surcharge or  
27 sur-credits.  
28

1 Q115. Please summarize California American Water's specific request.

2 A115. (1) For Fruitridge Vista in our Northern Division, California American Water proposes  
3 to add the CEBA surcharge in 2024 and the M-WRAM and FCBA when fully metered in  
4 2025. The CAP surcharge is already applicable to Fruitridge Vista customers. (2) For  
5 Bass Lake, the Company proposes to add the CAP and CEBA surcharge in 2024 and the  
6 M-WRAM and FCBA when fully metered in 2025. (3) For East Pasadena, Bellflower  
7 and Warring in our Southern Division, California American Water proposes to add the  
8 CAP, CEBA, M-WRAM and FCBA in 2024 with the implementation of new rates. For  
9 Fruitridge Vista and Bass Lake, the Company proposes filing a tier 2 advice letter to  
10 implement the M-WRAM/FCBA once fully metered.

11  
12 **K. Alignment of Operations and Expense Recovery – Special Request #11**

13 Q116. What is California American Water requesting regarding recovery of authorized  
14 regulatory expenses?

15 A116. California American Water requests that the authorized level of necessary and prudent  
16 regulatory expenses be amortized over 27 months instead of 36. We propose that the  
17 recovery for regulatory expenses be authorized for 3 months of the test year with the  
18 remaining amount recovered equally in the Escalation and Attrition years.

19  
20 Q117. Why is California American Water making such a request?

21 A117. California American Water has made the request to better match when the actual costs  
22 will be incurred with recovery that is authorized by authorized revenue requirements in  
23 this case.

24  
25 Q118. How is California American Water defining what it considers regulatory expenses to be  
26 considered as part of this request?

27 A118. California American Water considers the following items to make up regulatory expense  
28 in this case: 1) rate case expenses are costs incurred in the study, development, filing,

1 noticing, informing, prosecution and implementation of rate cases, and 2)E-Source  
2 (formerly Water System Optimization or WSO) costs to be incurred in the development  
3 of plans and implementation of the requirements of Senate Bill (“SB”) 555.<sup>61</sup> The costs  
4 proposed to be included in this request are those that are not recovered in any other part  
5 of the rate case request. Most of the costs to be included to comply with SB 555 will be  
6 incurred by E-Source, an outside consultant specializing in water saving processes and  
7 recommendations.  
8

9 Q119. Does California American Water incur much in the way of rate case costs in a Test Year?

10 A119. No. California American Water incurs very few rate case expenses in test years. This is  
11 because work is usually just beginning at this time and the work that is beginning on the  
12 next rate case can generally be performed by the internal rate case staff. Internal rate  
13 case staff costs are recovered through labor, labor related and other administrative costs,  
14 and not in rate case expense.  
15

16 Q120. Why are most rate case costs incurred in the Escalation and Attrition years?

17 A120. Rate case costs include outside consultants, outside legal, mailing and reproduction costs,  
18 employee expense, rate case work performed by Service Company employees and other  
19 costs that are not incurred in normal day-to-day business. Normally we retain outside  
20 consultants late in the test year and employ their services through the end of hearings –  
21 which is in the Attrition year. Legal costs and employee expenses are mostly incurred  
22 just before, during and just after evidentiary hearings. Rate case related Service  
23 Company costs are incurred at about the same time as those of the outside consultants.  
24

25 Q121. When does California American Water expect to incur E-Source costs?  
26  
27

28 <sup>61</sup> Please see the Section VIII of the Direct Testimony of Mr. Patrick Pilz for a full description of the  
program and costs related to the implementation of SB 555.



1 A121. California American Water expects that most of the E-Source costs will be incurred in the  
2 Escalation and Attrition Years.

3  
4 Q122. Why will costs for the developing and compliance with SB 555 be mostly incurred in the  
5 Escalation and Attrition Years?

6 A122. As is noted in Section VIII of the Direct Testimony of Patrick Pilz, the costs for  
7 developing and implementing programs for complying with SB 555 are substantial and  
8 must be incurred after approval in rate case decision. Since rate case decisions are usually  
9 not rendered by the start of the Test year, to make sure that the actual costs incurred are  
10 not substantially different from that authorized, the implementation of the compliance  
11 actions must ramp up after a decision is rendered in this case.

12  
13 Q123. Why does California American Water believe that is necessary to better to match the cost  
14 and the recovery?

15 A123. Financial statements should always attempt to match costs and revenues as closely as  
16 possible. If you are recovering revenue in one period for coverage of expense that occurs  
17 in another, you do at times have to defer the revenue to match the expense  
18 occurrence. This is time-consuming and creates extra work and explanation that can  
19 easily be avoided by authorizing a delayed recovery as requested above for ratemaking  
20 purposes. But, in addition, the Rate Case Plan is established in accordance with  
21 regulatory principles for the purpose allowing a utility the opportunity to recover its  
22 authorized costs and does so by also trying to match costs incurred with those authorized.  
23 The present situation wherein a rate case decision authorizes an equal amount of  
24 amortization in each year of the three-year rate case period does not allow for opportunity  
25 to recover all the authorized costs.

26  
27 Q124. Why would amortizing these costs equally over a three-year period not allow the  
28 opportunity to earn the authorized rate of return?

1 A124. The lost opportunity is due to the Escalation and Attrition rate case period requirement  
2 that a pro-forma rate of return test be made on each actual period to check whether a  
3 company has earned below, at or above its authorized return. This test says that if a  
4 company earns below or at its authorized return, then the rate increase for the Escalation  
5 and/or the attrition year will be at the authorized level, but no more. If the company  
6 earns above the authorized rate of return, then the increase is reduced to ensure that the  
7 above authorized revenue from the past year is returned to customers in a lower rate  
8 increase in the Escalation or Attrition year. In the case of rate case expense, since the  
9 company does not incur much in the way of rate case expense in any Test year of a rate  
10 case period, this would automatically result in the Escalation period step rate increase to  
11 be reduced because no, or little, rate case expense was incurred. This reduction to the  
12 Escalation revenue increase allowed is the result of a mismatch of costs authorized to  
13 what we know will be incurred. For the Attrition year pro forma test, if the actual  
14 amount of rate case expense is used, then we know that it will be much greater than  
15 authorized if the authorized is spread evenly over each year of the three-year  
16 authorization. As there is no ability using the pro-forma test to achieve a revenue increase  
17 higher than authorized, the company must incur a loss of revenue from the Escalation  
18 year that can never be made up in the Attrition year. This then results in violation of the  
19 principles of the rate making in that the Commission has taken away the company's  
20 opportunity to achieve its actual authorized rate of return.

21  
22 Q125. Please explain further exactly what California American Water is requesting in this case  
23 in relation to actual presentation of costs incurred for book and rate-making presentation?

24 A125. California American Water requests that the authorized annual level of regulatory  
25 expense for ratemaking and book purposes be matched to how they are actually incurred  
26 the Test, Escalation and Attrition years, that this level of expense as amortized be spelled  
27 out in the final decision, and that those authorized levels be used in the calculations for  
28

1 each of the years. For information on rate case expenses, please see Section VI of the  
2 Direct Testimony of California American Water witness, Stephen (Wes) Owens.

3  
4 Q126. Do you agree with Cal Advocates' previous characterizations that the request for a  
5 change to rate case costs recovery would make an "unnecessary distinction" between rate  
6 case expenses and other general expenses for which a single test year budget is used?

7 A122. No, I believe that a distinction between such rate case expense and other general  
8 expenses is very much warranted for California American Water. Since the Rate Case  
9 Plan was adopted more than a decade ago, California American Water has gone through  
10 several general cases in that time. What it has found with each subsequent GRC is that  
11 some of the assumptions made in adopting the Rate Case Plan in 2007 need updating  
12 based on the company's specific circumstances. In particular, prior to the adoption of the  
13 Rate Case Plan, California American Water had never undergone a single multi-district  
14 GRC proceeding. As one of the larger Class A water utilities with several ratemaking  
15 districts with varying issues in each, California American Water's GRCs have been  
16 highly intensive and require significant efforts. I believe my counterparts at Cal  
17 Advocates would agree with that assessment. Accordingly, California American Water's  
18 rate case expenses have followed the cyclical triennial pattern established by the Rate  
19 Case Plan's requirement for the filing of rate cases every three years. This pattern for rate  
20 case expenses is particularly pronounced for California American Water and is the reason  
21 why we are seeking SR #9 here. These are circumstances that were not known at the time  
22 that the Rate Case Plan was adopted.

23  
24 **L. Subsequent Rate Changes – Special Request #12**

25 Q123. What is meant by the term "subsequent rate changes?"

26 A123. The term "subsequent rate changes" refers to any change to base rates that occurs after  
27 California American Water's GRC Application, filed on July 1, 2022, and before the start  
28 of the new test year of January 1, 2024.

1 Q124. Please provide examples of the types of base rate changes that can occur.

2 A124. California American Water can file for its 2023 step increase for escalation if it passes  
3 the Commission’s “earnings test” and can file “purchased water offsets” to increase rates  
4 when water wholesalers change the price of purchased water. Similarly, California  
5 American Water can file “purchased power offsets” to increase rates when electricity  
6 providers change the price of power. In addition, after completing certain capital  
7 projects, California American Water may increase rates through a “rate base offset” filing  
8 when the project is used and useful. Finally, other Commission actions or orders might  
9 result in changes to base rates from proceedings or applications such as the cost of capital  
10 decision, Pure Water Monterey (“PWM”) expansion project and changes related to the  
11 income taxes.

12  
13 Q125. Why should “subsequent rate changes” be reflected in final rates for the 2024 Test Year?

14 A125. In between GRCs, California American Water may change its base rates to reflect any  
15 “subsequent rate change.” These items are not part of the GRC forecasted revenue  
16 requirement for the test year, as all of the facts are not known with certainty on the date  
17 of filing. Therefore, any Commission-approved increase in revenue requirement would  
18 fail to reflect these changes once new rates go into effect unless California American  
19 Water is authorized to incorporate the additional revenue requirement into the final GRC  
20 rates.

21  
22 Q126. What specific action is California American Water requesting with respect to  
23 “subsequent rate changes”?

24 A126. California American Water seeks explicit Commission authorization to incorporate into  
25 new rates any rate changes that occurred after this proceeding opened and  
26 acknowledgement that these changes will also need to be placed into present rates for the  
27 determination of the actual rate increase caused by this application. To effectuate this  
28 request, there are two components to integrate into the calculation of new rates. The first

1 is to correct the “present rates” that will appear in the Commission’s final decision (for  
2 the purposes of comparing “present rates” against the newly adopted rates). The second  
3 is to ensure that the revenue requirement model for the new rates includes the rate  
4 changes subsequent to this GRC application. For example, since “offsettable” expense  
5 filings reflect an increase in the unit cost for wholesale water purchases, that unit cost  
6 must be incorporated into the estimated test-year production costs to reflect true operating  
7 costs going forward. Please also refer to Section IV.D. of the Direct Testimony of  
8 Bahman Pourtaherian, for a complete discussion on the “present rate revenue” in this  
9 application and Section V of my testimony for how the revenue requirement and requests  
10 in this GRC will coordinate with other Commission proceedings.

11  
12 **M. Monterey Wastewater Phase-In – Special Request #18**

13 Q127. Please state how the authorized rate increases for California American Water’s  
14 wastewater customers in Monterey County should be implemented from the decision in  
15 this application.

16 A127. California American Water is requesting that the authorized revenue requirement increase  
17 approved by the Commission for test-year 2024 for its active and passive wastewater  
18 customers be phased-in by the below described methodology over the entirety of the  
19 applicable rate case three-year period (2024-2026).

20  
21 Q128. Why is California American Water making such a request in this case?

22 A128. California American Water is making this request to acknowledge that there is an  
23 affordability issue related to the necessary revenue requirement increase and the  
24 corresponding rates that would be charged for wastewater service once a decision is  
25 approved in this proceeding.

26  
27 Q129. Please explain why you believe that there could be an affordability issue related to a Test  
28 Year rate increase resulting from this rate case application.

1 A129. The present rates for the active and passive wastewater customers in Monterey County  
2 are \$127.66 and \$84.22 per month per Equivalent Dwelling Unit (“EDU”), respectively.  
3 Many customers our Monterey County wastewater service area reside in lower income  
4 areas<sup>62</sup> and as such any substantial increase that would be warranted from a decision in  
5 this application would be hardship on these customers. The proposed rates for the active  
6 and passive wastewater customers for test year 2024 are projected to increase  
7 significantly.

8  
9 Q130. What is driving these increases to wastewater customer bills?

10 A130. Most of the increase requested in this application for wastewater customers is the result  
11 of increases in rate base that have already occurred or will occur before the Test Year and  
12 price increases to required, non-controllable costs such as purchase power and chemicals  
13 that are necessary in the provision of the service.

14  
15 Q131. What is the proposed level of increase proposed by California American Water for the  
16 three-year period of this case for wastewater service?

17 A131. The proposed annual rate increase for the Test Year (2024), Escalation Year (2025) and  
18 Attrition Year (2026) are 19.45%, 3.38% and 3.20%, respectively. These proposed  
19 percentage increases may change as part of the 100-day update to be provided on October  
20 10, 2022. However, based on the application requests rate base and non-controllable  
21 items making up most of the requested increase. California American Water believes that  
22 the underlying reasons, and therefore, the level of increase in the Test Year for this  
23 request will not change.

24  
25 Q132. The requested percentage increases for wastewater service do not seem to be that  
26 different from the percentage increases requested by California American Water for  
27

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28 <sup>62</sup> The Census track data shows our Spreckels system with a median income of less than \$70,000 per year  
and our Las Palmas system has a number of low income qualifying customers.

1 water service as stated in this application. Please explain if you are making a similar  
2 request for a phase-in of the rate increases for water service, and if not, why are you only  
3 making the request for wastewater service?

4 A132. The request is only being made for wastewater service for several reasons. First,  
5 wastewater customers are all billed on a flat rate fixed charge for their type of service  
6 (passive or active; or Commercial service use). The individual customers have no ability  
7 to control the cost of wastewater service. They are billed a fixed flat monthly rate. Water  
8 service customers are billed a smaller fixed monthly charge and then an amount for each  
9 unit of water consumed. As such water customers can limit discretionary use by using  
10 less water and that will result in a smaller bill.

11  
12 Second, and as stated above, the wastewater service provided by California American  
13 Water in Monterey County is provided to a high number of customers in lower income  
14 areas. The result of the high test-year increase to these customers can be highly impactful  
15 and result in an affordability issue for them.

16  
17 Third, while the percentage increase is just slightly higher than the increase proposed for  
18 water service in the California American Water service areas, the dollar impact is  
19 significantly higher due to the higher monthly fixed cost of wastewater service.

20  
21 Q133. Please describe how California American Water proposes to phase-in the three-year rate  
22 increase for the wastewater customers?

23 A133. California American Water proposes that the resulting increase percentage for the Test  
24 Year be limited to 5% plus 1/3 of any authorized percentage increase above the 5%. The  
25 remaining 2/3 of the authorized increase above the 5% should then be tracked in a  
26  
27  
28

1 memorandum account<sup>63</sup> accruing interest at California American Water's grossed-up  
2 authorized rate of return. In the Escalation Year 50% of the forecasted balance of the  
3 memorandum account as of December 31, 2024, should be recovered as a proportional  
4 surcharge on all customers bill over the 12-month Escalation Year period. So, for the  
5 Escalation Year, the revenue requirement would include the full revenue requirement  
6 plus half of the memorandum account balance. The remaining estimated balance as of  
7 December 31, 2025, should then be recovered as a proportional surcharge on all customer  
8 bills over the 12-month Attrition Year period. This process will ensure that the increase  
9 for each of the three-years of the rate case period will be close to the same. If the final  
10 decision is delayed past January 1, 2024, California American Water requests that the  
11 surcharge collect the phase-in revenues over a 24 month period regardless of when the  
12 decision is implemented.

13  
14 Q134. Why can't the exact same increase be proposed for all three years?

15 A134. While that may be the ideal situation, it is impossible to make the percentage increase the  
16 same as the Escalation and Attrition year increase processes are based on inflation  
17 increases that are not known until close to the Escalation and Attrition filing dates.

18  
19 Q135. Please explain why California American Water is requesting a full grossed-up rate of  
20 return as the carrying cost for the deferred phased-in revenue requirement increase  
21 tracked in the proposed memorandum account.

22 A135. California American Water is requesting the Commission authorize the grossed-up full  
23 rate of return for this memo account for the following three reasons: 1) customers benefit  
24 as a result of lower annual rate increases, 2) the rate increase being deferred is the result  
25 of prudent and necessary increases in rate base that are funded by long-term debt and  
26

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27 <sup>63</sup> The proposed title for the memorandum account is "Monterey Wastewater Revenue Phase-In  
28 Memorandum Account". Please refer to the Direct Testimony of Jonathan Morse, Attachment 1 for  
the exemplary tariff.



equity, and 3) customers benefit by ensuring that the financing costs are not impacted by deferrals of authorized and necessary rate increase to cover financing costs.

Q136. Doesn't the Commission usually allow the Company to track authorized rate increases from a decision that is delayed in a memorandum account that only earns 90-day commercial paper rate? Why is this request different?

A136. Yes, I agree that in almost every rate case, proposed decisions are rendered and approved after the beginning of the Test Year. In these cases, the final effective revenue requirement and rates are compared to interim rates that were approved and any differences are tracked in a memo account for recovery from or return to customers. In the case of these interim rate true-up accounts, the balance can be either over or under-collected and once that amount is known as the result of a final rendered decision the amount is then collect or returned in the most effective and expeditious manner. What is important to note is that the interim rate true-up accounts can be either over or under-collected and that they are the result of delays in the rate case process that can be attributed to a number of circumstances. In the case of the proposed Phase-in account proposed by California American Water in this proceeding, it is a longer-term recovery account, proposed for the sole benefit customers and is not the result of rate case decision delays. Being that this proposal for a phased-in implementation of an authorized increase is being delayed for the benefit of customers, California American should not be further impacted by a resulting carrying cost increase in long-term debt and equity.

Q137. In regard to the interim rate true-up account, can't the proposed phase-in rate implementation deferral also be tracked in this account?

A137. No. the interim rate true-up account is only for tracking the difference between approved interim rates actually billed to customers and the rates that should have been effective as the result of a delayed rare case decision. For the interim rate true-up account, the amount that will be tracked in this account for wastewater customers should be the difference

1 between any interim rates and the rates approved in the decision that relate to any  
2 approved phase-in rate structure. The interim rate true-up amounts and the deferred  
3 phase-in revenue recovery amounts should be tracked in separate accounts and recovered  
4 by separate surcharges.  
5

6 Q138. Please further explain how the customers benefit from lower annual rate increases.

7 A138. As explained above, while the percentage increases noted above are not that different  
8 from the percentage increases proposed for water customers, the dollar magnitude is  
9 much higher and because many of the wastewater customers are in lower income areas,  
10 implementing a large Test Year increase could result in unexpected hardships for many  
11 customers. Spreading the increase over the three-year effective period of this application  
12 will allow the customers to better understand and prepare for level increases in each of  
13 the three years.  
14

15 Q139. Please explain why phased-in rate increases mostly related to increased rate base should  
16 result in using the grossed-up rate of return instead of the 90-day commercial paper rate.

17 A139. Rate base is recognized as funded by long-term debt and equity. The Commission has an  
18 obligation to provide any utility with the ability to recover its prudent and reasonable  
19 costs. Since the revenue increase is caused mostly by changes in rate base, and this rate  
20 base is funded by long-term debt and equity, the carry cost of any revenue recovery rated  
21 to the investments in plant to serve customers is then essentially creating a delayed  
22 recovery of cost to finance the plant additions. To ensure full recovery of reasonable and  
23 prudent authorized investments, the Commission had an understood obligation to allow  
24 recovery of all the costs related to that investment, which in this case is the same rate of  
25 return on this memorandum account as authorized for investment in plant. Not allowing  
26 for a full grossed-up rate of return on the memorandum account would be penalizing  
27 California American Water for trying to mitigate the impact of a large Test Year increase  
28 of customer bills.

1 Q140. How do customers benefit by ensuring that the financing costs are not impacted by  
2 deferrals of authorized and necessary rate increase to cover financing costs?

3 A140. If California American Water is not authorized to use its grossed-up rate of return as the  
4 carrying cost of the memorandum account, investors could use that lower carry cost as a  
5 sign of negative regulation and impose higher borrowing costs in the future on any and  
6 all borrowings made by California American Water. That would raise the revenue  
7 requirements for all investments of California American Water that all customers would  
8 have to pay for through higher rates. This would not only affect the wastewater  
9 customers, but all customers. Since this is a proposed phase-in to help mitigate only the  
10 wastewater customers, any and all effects of the phase-in should be properly accounted  
11 for in full recovery of all such deferrals by those who receive the benefit of the deferral.  
12

13 Q141. Has the Commission ever had California American Water phased-in a portion of the  
14 authorized rate increase for service to the second and third year of rate case application  
15 effective period?

16 A141. Yes, the Commission in D.06-11-050, ordered California American Water to spread out  
17 an authorized rate case increase for its then Felton District service to later in the rate case  
18 cycle due to the magnitude of the authorized increase.<sup>64</sup> The reason for this Commission  
19 required spreading of the increase was that the increase was over 100%. But, while the  
20 percentage magnitude was significantly higher, the average monthly increase in dollars  
21 was not that different. The important item to consider is that the perceived impact to the  
22 customers in both cases was (is) that it will be of such a magnitude that it can create an  
23 affordability issue if fully implemented all in one year.  
24  
25  
26

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27 <sup>64</sup> D.06-11-050, *In the Matter of the Application of California-American Water Company (U 210 W) for*  
28 *an order authorizing it to increase its rates for water service in its Monterey and Felton Districts,*  
dated November 30, 2006, p. 90.

1 **V. RATE CASE COORDINATION WITH OTHER COMMISSION PROCEEDINGS**

2 Q142. Why does California American Water believe that past rate case decisions need to be  
3 coordinated with the requests in this case?

4 A142. Not only has California American Water had many applications before the Commission  
5 over the past few years, but the Commission has opened several rulemakings, some of  
6 which are now closed. Many of the proceedings that have concluded or are pending  
7 before the Commission impact various aspects of the request in this application. Not to  
8 consider past decisions and the consequences of future decisions would unnecessarily  
9 complicate and confuse issues in this proceeding. Although California American Water  
10 does not know how the Commission will rule on pending proceedings, the Company  
11 believes it is important to discuss how these cases may impact our customers over this  
12 rate case period (2024-2026).

13  
14 Q143. Please describe the prior and pending Commission proceedings that have a direct impact  
15 on this GRC request.

16 A143. There are four general categories of proceedings to address in testimony. Those include:  
17 1) Cost of Capital proceedings – current and pending, 2) Monterey District water supply  
18 proceedings – current and pending, 3) Acquisitions – current and pending, and 4)  
19 Commission Rulemakings. A more comprehensive analysis of the Company’s regulatory  
20 compliance activities is provided in Section VIII to the Direct Testimony of Stephen  
21 (Wes) Owens.

22  
23 **A. Cost of Capital – 2017 Cost of Capital Proceeding (D.18-03-035, A.17-04-003)**  
24 **and 2021 Cost of Capital Proceeding (A.21-05-001)**

25 Q144. Are there any issues or coordination that should exist between this application and the  
26 decision in the 2017 Cost of Capital proceeding?

1 A144. Yes, there are several coordination and other issues that need to be discussed in testimony  
2 just to ensure that California American Water's position is known and accurately projects  
3 bill impacts into the future.

4  
5 Q145. Please explain what coordination and other issues need to be addressed with regards to  
6 the decision in A.17-04-003.

7 A145. In this application, the Company has used the currently authorized rate of return to  
8 project revenues for the Test, Escalation and Attrition years. The application also  
9 projects revenues at present rates based on today's current tariffs, which use the same  
10 currently authorized rate of return. The current authorized rate of return more than likely  
11 will not be what is finally authorized for rates effective January 1, 2024. That is because  
12 on May 3, 2021, California American Water and the three other large Class A water  
13 utilities<sup>65</sup>, filed an application (A.21-05-001) for authority to establish its authorized cost  
14 of capital for the period January 1, 2022 through December 31, 2024. The current  
15 procedural schedule in A.21-05-001 anticipates that a final decision will be issued for that  
16 proceeding in the fourth quarter of 2022. Therefore, the actual increase that is requested  
17 between present rates as of this application and rates that will be effective as of January  
18 1, 2024 may be substantially different from the currently projected increases as shown in  
19 this application. Since all notices are based on the current rate of return, the Commission  
20 should not require re-noticing if the cost of capital changes, resulting in a larger increase  
21 than noticed in this application. California American Water has followed the current  
22 Rate Case Plan in the current application regarding the necessary customer notices and  
23 has provided the requisite notices in the Cost of Capital proceeding. Therefore, it is  
24 unnecessary to require California American Water to incur the costs of another set of  
25 customer notices once the Commission has issued a decision in the Cost of Capital  
26

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27 <sup>65</sup> On May 3, 2021, California American Water along with California Water Service, Golden State Water  
28 and San Jose Water filed applications for a new cost of capital. By motion, these four applications  
were consolidated. California American Water's proceeding number is A.21-05-001.

proceeding. If a decision by the Commission in the pending Cost of Capital proceeding occurs later this year, rates would be updated prior to the test year. As requested in SR #12, California American Water requests that the rate changes associated with a new cost of capital be reflected in both present and proposed rates for purposes of determining the actual rate increase caused by this application.

**B. Monterey Water Supply Proceedings**

**1. Monterey Peninsula Water Supply Project (“MPWSP”) Phase 2 D.16-09-021 (A.12-04-019)**

Q146. Are there any coordination issues in this GRC related to the MPWSP Phase 2 decision?

A146. There are no coordination issues with respect to the Monterey Pipeline and Pump Station (“MP&PS”) investment. However, there are impacts to the revenue requirement associated with the Pure Water Monterey Water Purchase Agreement. In D.16-09-021, the Commission approved Phase 2 of the MPWSP, which included construction by California American Water of the \$50.3 million MP&PS. It also approved the Water Purchase Agreement between California American Water and MPWMD for purchase of 3,500 acre-feet per (“afy”) of recycled water from the Pure Water Monterey (“PWM”) project. The year 1 cost was authorized at \$1,720 per AF. In this application, the revenue requirement of the MP&PS has been included in both the present and proposed rates for the Monterey District. For purchased water costs, the present rate revenues reflect the quantity and cost per acre foot per the fiscal year 2021-2022 plan. Under the PWM water purchase agreement (“WPA”), the public agencies in that agreement provide annual notices to the Company with the applicable water rate for the following fiscal year. On May 13, 2021, California American Water received notice of new purchased water rates from the public agencies for FY 2021-2022. On May 28, 2021, the Company filed Advice Letter 1336 to implement the new purchased water rates. On June 3, 2022, California American Water filed Advice Letter 1375 to implement new purchased water rates for FY 2022-2023. The new costs to be effective July 1, 2022 are \$3,446 per acre-

1 foot (“AF”) or an increase of 24% from the FY 2021-2022 rate of \$2,808 per AF. The  
2 rate in effect for 2023 and 2024 will be based on the corresponding notice that we receive  
3 from the public agencies. Therefore, under SR #12, the present and proposed rates will  
4 need to be updated to reflect these changes to purchased water costs for purposes of  
5 reflecting the rate change associated with this GRC.

6  
7 **2. Monterey Peninsula Water Supply Project (“MPWSP”) Phase 1 D.18-**  
8 **09-017 (A.12-04-019)**

9 Q147. What are the issues or coordination of issues that need to be considered in relation to the  
10 Phase 1 decision, D.18-09-017?

11 A147. On September 20, 2018, the Commission issued D.18-09-021, granting California  
12 American Water a Certificate of Public Convenience and Necessity (“CPCN”) to  
13 construct a 6.4 million gallons per day desalination plant and certified final  
14 environmental impact report/environmental impact statement. Ordering Paragraph 25 of  
15 D.18-09-017 directed California American Water to file a tier 3 advice letter to provide  
16 details to implement the provisions of the decision. Advice Letter 1220-A, filed on  
17 September 10, 2019, and approved on February 4, 2020, outlined the financing and  
18 ratemaking plan, consistent with the July 31, 2013 Comprehensive Settlement. The  
19 ratemaking plan for the Phase 1 MPWSP costs are incremental to base rates determined  
20 in this GRC. California American Water’s application for coastal development permits  
21 for the MPWSP slant wells and related infrastructure remains pending before the Coastal  
22 Commission

23  
24 **3. Pure Water Monterey Expansion Application (A.21-11-024)**

25 Q148. What are the issues or coordination of issues that need to be consider in relation to the  
26 Pure Water Monterey Expansion A.21-11-024?

27 A148. On November 29, 2021, California American Water filed A.21-11-024 to obtain approval  
28 to enter into the Amended and Restated Water Purchase Agreement (“Amended WPA”)

1 for the Pure Water Monterey expansion project. That application also requests the same  
2 regulatory treatment for the facilities necessary to maximize the use of the supplemental  
3 water from the PWM expansion as the Commission previously approved in D.16-09-021  
4 for the California American Water facilities associated with the original PWM  
5 project. Per the Assigned Commissioner's Scoping Memo and Ruling, the Commission  
6 will consider the issues in the Application in two phases, with the potential for a third  
7 phase if determined necessary after review of information provided in the first two  
8 phases. Phase 1 is addressing whether the Amended WPA is reasonable, whether the  
9 ratemaking proposals for the Amended WPA and related facilities are reasonable, and  
10 whether California American Water's water supply and demand estimates support  
11 approval of the Amended WPA. The procedural schedule for that proceeding  
12 contemplates that the Commission may adopt a final decision for Phase 1 as early as the  
13 third quarter of 2022. Phase 2 will be focused on developing updated water supply and  
14 demand estimates for the MPWSP. The procedural schedule contemplates the  
15 Commission may adopt a final decision for Phase 2 sometime in 2023. Therefore, it is  
16 foreseeable that the Commission may issue a decision in A.21-11-024 that may have  
17 relevant impacts during the GRC cycle being addressed in this proceeding.

18  
19 Q149. Please provide additional detail on how a decision in Phase 1 of A.21-11-024 might  
20 impact rates in the Company's Monterey District.

21 A149. There are two components of the Phase 1 proceeding that impact customer rates. First,  
22 the purchased water costs under the Amended WPA are adjusted annually. With  
23 approval of delivery of supplemental water pursuant to the Amended WPA, purchased  
24 water costs will increase and increased purchased water costs will appear on customer  
25 bills. Second, customers will also see a bill increase if the ratemaking treatment for the  
26 related facilities is approved and those facilities placed into rate. The incremental  
27 revenue requirement and bill impacts to the average residential customer bill were  
28 provided as part of the record in that proceeding. I have included the average residential



1 bill impacts filed in A.21-11-024 as Attachment 3 to my testimony to provide  
2 transparency to these changes. The bill impacts will be based on the Tier 2 Advice Letter  
3 filings to implement the four proposed projects and while the bill impact will differ, this  
4 provides the relative impacts over the 2023 through 2025 period.

5  
6 Q150. Please briefly summarize how the Monterey water supply proceedings relate to this GRC  
7 application.

8 A150. In summary, the ratemaking plan for the MPWSP Phase 1 costs was designed to be  
9 independent and incremental to the rates set in this GRC. Several stages of the MPWSP  
10 have already been placed into rates. First is the revenue requirement associated with the  
11 MP&PS (Phase 2), which was placed into rates in 2019. Second, PWM started providing  
12 California American Water with injected PWM water in Water Year 19/20. Third, costs  
13 associated with the expanded PWM project and California American Water facilities  
14 have been requested in A.21-11-024. The final stage will be construction and recovery of  
15 the desalination plant, which will follow the approved ratemaking plan.

16  
17 **C. Acquisition Proceedings**

18 Q151. In this GRC proceeding, does the Commission need to address issues relating to recently  
19 approved or pending water system acquisition applications?

20 A151. Yes, it does. As is discussed in greater detail at Section XI of the Direct Testimony of  
21 Stephen (Wes) Owens and at Section VIII of the Direct Testimony of Garry Hofer, there  
22 are four such acquisitions. In D.21-08-002, the Commission recently approved California  
23 American Water's acquisition of East Pasadena Water Company's assets. For California  
24 American Water's Application to acquire Bellflower Municipal Water System's assets  
25 there is a settlement agreement pending before the Commission that would resolve all  
26 outstanding issues in A.18-09-013. California American Water's unopposed application  
27 to acquire Warring Water Company's assets (A.20-04-017) also awaits a Commission  
28 decision. Finally, based on Commission-approved scheduling guidelines and the lack of

1 protest to the application, California American Water expects a decision by the end of  
2 2022 on the Company's application (A.22-03-002) to acquire Bass Lake. These  
3 acquisitions will need to be included in ratemaking in this GRC.  
4

5 **D. Rulemakings**

6 **1. Balanced Rates OIR Phase 1 (D.14-10-047) and Phase 2 (D.16-12-026)**

7 Q152. What are the issues or coordination of issues that need to be considered in relation to the  
8 Phase 1 decision (D.14-10-047)?

9 A152. There were two issues from the Phase 1 decision that were addressed in the prior  
10 GRC. Ordering Paragraph Number #2 of D.14-10-047 required California American  
11 Water and other utility respondents to analyze and report on any high-cost and  
12 affordability problems that exist in one or more districts and propose one or more  
13 solutions to mitigate those problems. The proposed solutions noted include but are not  
14 limited to the following:

- 15 a. Rate Support Fund or similar cross-subsidy fund;
- 16 b. Reduction in high costs;
- 17 c. Consolidation in some form (i.e., rate consolidation, cost consolidation, rate base  
18 consolidation, operational consolidation);
- 19 d. Intra-utility grant/loan funding; and
- 20 e. Rate design (affordability through the first rate tier); and budget plans.

21  
22 Q153. Has California American Water addressed any high-cost or affordability issues in this  
23 GRC in compliance with D.14-10-047?

24 A153. Yes. The majority of the special requests in this GRC address affordability. California  
25 American Water proposes to consolidate transmission and distribution assets to address  
26 affordability across all districts in the state in SR #4. Similarly, in SRs #5 and #6, the  
27 Company proposes the normalization of acquisition rate base and catastrophic event costs  
28 over a broader customer base. SR #9 proposes changes to the Placer County Special

1 Facilities Fee Memorandum Account to ensure that new development pays for the cost of  
2 growth in our Northern Division. In SRs #10 and 18, California American Water is  
3 proposing ratemaking changes that are directly intended to mitigate rate impacts to some  
4 of our most vulnerable customers. These special requests are discussed in Section IV of  
5 my Direct Testimony. Additionally, SR #16 discussed in Section XII of the Direct  
6 Testimony of Patrick Pilz address conservation investments for our low-income  
7 customers and the associated benefits. Mr. Pilz' testimony also present the Company's  
8 proposals on our low-income programs and customer discounts, the Company's  
9 innovative Hardship Benefit Fund, and our conservation programs and investments.

10  
11 Q154. Has California American Water performed the required analysis?

12 A154. Yes, the analysis and results are addressed in testimony for the respective SRs (SR #4,  
13 #5, #6, #10 and #18) discussed above (see Section IV above).

14  
15 Q155. How has California American Water complied with this decision and how does it impact  
16 the proposals in this application?

17 A155. First, the sales forecasting methodology is addressed in the testimony of David Mitchell  
18 of consulting firm, M-Cubed. California American Water believes that the testimony  
19 demonstrates improved forecasting methodologies that consider the consumption trends  
20 during and following the drought that began in 2013. In addition, SR #3 requests that the  
21 ACAM be made permanent in all of our districts. California American Water believes  
22 that these are in compliance with D.16-12-026. Second, the decision directed the filing  
23 of a request for AMI for Class A utilities in their next GRC. D.21-11-024 approved the  
24 installation of AMI in our Monterey and Ventura County Districts. The Direct  
25 Testimony of Garry Hofer, Section IX, presents the Company's modified proposal for  
26 installation of AMI. Finally, with respect to rate design, the Rate Design Report, which  
27 is Attachment 3 to the Direct Testimony of David Mitchell addresses several issues raised  
28 in the decision. California American Water proposes to continue its four-tier rate design

1 in most districts and propose modest increases to the portion of fixed costs recovered  
2 through the meter charge.

3  
4 Q156. What currently open proceedings does California American Water believe need better  
5 coordination with issues in this case, or what issues need vetting to be considered in the  
6 processing of this application?

7 A156. The following six open proceedings need to be addressed in this testimony to ensure that  
8 the Commission understands how the Company has addressed the open issues in those  
9 proceedings in this application:

- 10  
11 1) R.17-06-024, an OIR Evaluating the Commission’s 2010 Water Action  
12 Plan Objective of Achieving Consistency between Class A Water  
13 Utilities’ Low-Income Rate Assistance Programs, Providing Rate  
14 Assistance to All Low-Income Customers of Investor-Owned Water  
15 Utilities, and Affordability (“LIRA Rulemaking”);
- 16 2) R.18-07-006, OIR to Establish a Framework and Processes for Assessing  
17 the Affordability of Utility Service (“Affordability Rulemaking”);
- 18 3) R.18-12-005, OIR to Examine Electric Utility De-Energization of Power  
19 Lines in Dangerous Conditions (“Public Safety Power Shutoff  
20 Rulemaking”);
- 21 4) R.15-06-009, OIR Regarding Policies, Procedures and Rules for  
22 Regulation of Physical Security for the Electric Supply Facilities of  
23 Electrical Corporations Consistent with Public Utilities Code Section 364  
24 and to Establish Standards for Disaster and Emergency Preparedness Plans  
25 for Electrical Corporations and Regulated Water Companies Pursuant to  
26 Public Utilities Code Section 768.6 (“Emergency Preparedness  
27 Rulemaking”);  
28

- 1                   5)     R.18-03-011, OIR Regarding Emergency Disaster Relief Program  
2                             (“Emergency Disaster Support Rulemaking”); and  
3                   6)     R.22-04-003, OIR to Review the Existing Guiding Framework Set Forth  
4                             in Decision 99-10-064 (Consistent with the Public Water System  
5                             Investment and Consolidation Act of 1997) Regarding Acquisitions  
6                             Involving Water Utilities Under the Commission’s Jurisdiction.(“Water  
7                             System Acquisition Rulemaking”).  
8

9                   **2.     LIRA Rulemaking (R.17-06-024)**

10   Q157. How has California American Water considered the possible outcomes from R.17-06-024  
11       in this proceeding?

12   A157. In Phase 1 of the LIRA Rulemaking, the Commission adopted D.20-08-047, which set  
13       forth many directives applicable to California American Water relating to its low-income  
14       customer assistance program, WRAM/MCBA, sales forecasting, rate design, ongoing  
15       reporting, multi-family pilot program and future acquisitions. The Company’s low-  
16       income program was renamed the Customer Assistance Program (“CAP”) by Advice  
17       Letter 1326, which was approved by the Commission on April 19, 2021, effective March  
18       5, 2021. California American Water’s CAP changes are addressed in Section V of the  
19       Direct Testimony of Patrick Pilz. The Company made a series of proposals in Advice  
20       Letter 1320, filed on January 4, 2021, in compliance with the decision. This is also  
21       discussed in Mr. Pilz’ testimony, Section V. The sales forecasting requirements that are  
22       included in Ordering Paragraph #1 are addressed in the Direct Testimony of David  
23       Mitchell at Attachment 2. Mr. Mitchell’s analysis informs the recommendations on sales  
24       forecasts and rate design included in Sections IV and X of the Direct Testimony of  
25       Bahman Pourtaherian, respectively. In Section IV of my Direct Testimony, I address the  
26       requirements related to the M-WRAM and ICBA. These are reflected in Special  
27       Requests #1 and #2. The ACAM is also addressed in Special Request #3, which address  
28       solutions to improving the accuracy of sales forecasts (see Section IV above). Finally,

1 Section VIII of the Direct Testimony of Stephen (Wes) Owens, addresses our  
2 comprehensive regulatory compliance actions, which reflects all ordering paragraphs,  
3 including those associated with D.20-08-047.  
4

5 In Phase II of the LIRA Rulemaking, the Commission adopted D.21-07-029, which  
6 directed California American Water and other Class A water utilities to continue to  
7 suspend disconnections of customers with water utility bill debt accumulated during the  
8 COVID-19 pandemic. In particular, the Phase II Decision also provides guidance to  
9 Class A water utilities for requesting recovery of unpaid bills associated with the  
10 COVID-19 pandemic through their CEMA. The Direct Testimony of Michael Clarke  
11 address the Company's CEMA balances and the specific requests. California American  
12 Water is not requesting recovery at this time of costs associated with unpaid bills as  
13 addressed by D.21-07-029. However, certain other operation and maintenance costs are  
14 being addressed in this GRC. Along these lines, the Commission also issued Resolution  
15 M-4842, which ratified "directions provided by the Commission's Executive Director on  
16 March 17, 2020 to energy, water and communications corporations to retroactively apply  
17 customer protection measures from March 4, 2020 onward – during the pendency of the  
18 COVID-19 pandemic," established certain customer protections, and directed California  
19 American Water and other utilities to take certain steps in response to the COVID-19  
20 pandemic. The Commission also later issued Resolution M-4849, which extended those  
21 emergency customer protections relating to the COVID-19 pandemic and directed  
22 California American Water and other utilities to prepare and submit transition plans to be  
23 implemented following the end of those emergency customer protections, as well as  
24 taking certain other specific actions. My testimony at Section IV.F.3 and Section III of  
25 the Direct Testimony of Patrick Pilz discusses the Company's actions and responses to  
26 the pandemic with respect to emergency customer protections. The Phase II decision in  
27 the LIRA Proceeding also adopted improvements to the exchange of low-income  
28 customer data between energy and water utilities to help ease customer access to low-

1 income assistance programs. California American Water has implemented the quarterly  
2 data sharing, which is addressed in more detail in Section VI of the Direct Testimony of  
3 Patrick Pilz.

4  
5 The Commission recently opened Phase III of the LIRA Proceeding with the issuance of  
6 the Third Amended Scoping Memo on July 30, 2021. Phase III of the LIRA Proceeding  
7 is anticipated to address further issues relating to COVID-19 arrearage relief efforts and  
8 to consider whether there are further improvements to water affordability that are needed.  
9 However, it is currently too early to determine exactly what further requirements may be  
10 adopted for California American Water in Phase III of the LIRA Proceeding. Therefore,  
11 in contrast to Phase I and II, no added costs or programs are directly requested in this  
12 case at this time in response to Phase III of the LIRA Proceeding.

13  
14 **3. Affordability Rulemaking (R.18-07-006)**

15 Q158. Has California American Water considered any possible outcomes from R.18-07-006 in  
16 this proceeding?

17 A158. No. It is too early to determine exactly what may be required at this time. The  
18 Affordability Rulemaking is a broad proceeding that was opened in 2018 covering water,  
19 energy and telecommunication providers that seeks to holistically and consistently  
20 address customer affordability issues across individual Commission proceedings and  
21 utility rate requests. In Phase I, the Commission adopted D.20-07-032, in which it  
22 adopted metrics and methodologies for assessing the relative affordability of utility  
23 service. In the current Phase 2 of the Affordability Rulemaking, the Commission has  
24 been considering how to refine the adopted affordability metrics and issues regarding to  
25 implementation of those metrics. The Commission issued a staff report in November  
26 2021 proposing an implementation strategy, including for consideration of the  
27 affordability metric in water utility GRCs and other proceedings. As set forth above, on  
28 June 10, 2022, the Commission issued a proposed decision for Phase II. Because the

1 proposed decision will not be final before this application is filed on July 1, 2022,  
2 California American Water has based its analysis on the currently approved three  
3 measures. California American Water is committed to doing its part to address such  
4 affordability issues and to collaborate with the Commission and other utility service  
5 providers. However, no added costs or programs are directly requested in this case at this  
6 time in response to the Affordability Rulemaking.

7  
8 **4. Public Safety Power Shutoff Rulemaking (R.18-12-005)**

9 Q159. How has California American Water considered the outcomes from R.18-12-005 in this  
10 proceeding?

11 A159. In the Public Safety Power Shutoff Rulemaking R.18-12-005, the Commission has issued  
12 a series of decisions setting forth guidelines for electric utilities in implement public  
13 safety power shutoffs. The relevant authorities now in place include the Phase I  
14 guidelines in Decision 19-05-042, additional Phase II guidelines in Decision 20-05-051,  
15 additional Phase III guidelines in Decision 21-06-034, as well as Resolution ESRB-8  
16 predating the Public Safety Power Shutoff Rulemaking. Together, these authorities form  
17 the Commission's public safety power shutoff guidelines and address a wide variety of  
18 issues, including customer notification, advance notice for public safety partners and  
19 critical facilities, and various reporting requirements. Critically, the Commission's  
20 guidelines identify requirements for its regulated electric utilities to work and coordinate  
21 with water utilities like California American Water as public safety partners during such  
22 events. The Commission is currently in the process of compiling a compendium of the  
23 existing PSPS requirements and guidelines described above. It is unclear whether the  
24 Commission intends to make further adjustments to the guidelines that may have impacts  
25 on California American Water in this GRC proceeding. Notwithstanding that, California  
26 American Water intends to work with the Commission, electricity providers, customers  
27 and others to ensure that it can continue to provide safe and reliable water service to its  
28 customers and meet all regulations for safe operation of its facilities, in accordance with



1 the guidelines and framework developed in the Public Safety Power Shutoff Rulemaking.  
2 The Direct Testimony of Garry Hofer at Section V discusses California American  
3 Water's PSPS preparedness.  
4

## 5 **5. Emergency Preparedness Rulemaking (R.15-06-009)**

6 Q160. How has California American Water considered the outcomes from R.15-06-009 in this  
7 proceeding?

8 A160. In D.21-05-019 for the Emergency Preparedness Rulemaking R.15-06-009, the  
9 Commission established standards for water and regulated electric utility disaster and  
10 emergency preparedness plans, as required by Public Utilities Code Section 768.6. Those  
11 standards also related to convening public meetings with representatives of local  
12 governments and tribal governments within the utilities' service territory to consult and  
13 provide input on said plans and directed utilities (including California American Water)  
14 to use the California Standardized Emergency Management System (SEMS). With  
15 respect to Class A water utilities like California American Water, those standards for  
16 disaster and emergency preparedness plans were incorporated into General Order 103-A.  
17 Accordingly, and as noted in Section V of the Direct Testimony of Garry Hofer,  
18 California American Water has been or will be complying with the applicable new  
19 requirements set forth in that decision. The Emergency Preparedness Rulemaking is  
20 completed, except for consideration of a petition for modification of the Phase I decision  
21 D.19-08-018 on certain issues specifically related to electric utilities.  
22

## 23 **6. Emergency Disaster Support Rulemaking (R.18-03-011)**

24 Q161. How has California American Water considered the outcomes from R.18-03-011 in this  
25 proceeding?

26 A161. In D.19-07-015 for the Emergency Disaster Support Rulemaking R.18-03-011, the  
27 Commission adopted the currently effective emergency disaster relief program for  
28 electric, natural gas, water, and sewer utility customers under this Commission's

jurisdiction. The Commission's emergency disaster relief program is designed to ensure that California utility customers who experience a housing or financial crisis due to a disaster, keep vital utility services and receive financial support in the wake of a disaster. The emergency disaster relief program shall be implemented upon a Governor of California's state of emergency declaration or a Presidential State of Emergency declaration, when a disaster has either resulted in the loss or disruption of the delivery or receipt of utility service and/or resulted in the degradation of the quality of utility service. The emergency disaster relief program builds upon the earlier interim relief program in D.18-08-004 (as corrected by D.18-09-029) as well as earlier directives in Resolutions M-4833 and M-4835. As relevant here, California American Water has complied with the requirements of the Commission's emergency disaster relief program and stands ready to assist customers during such emergencies. The Commission issued a ruling on March 21, 2022 requesting comments from parties on whether the Commission should close the Emergency Disaster Support Rulemaking. The majority of comments filed in support of keeping the rulemaking open identified potential issues solely relating to telecommunications service providers. Therefore, California American Water does not anticipate any further obligations or requirements to be imposed on the Company from that proceeding during the GRC cycle being addressed in this proceeding.

#### **7. Water System Acquisition Rulemaking (R.22-04-003)**

Q162. Has California American Water considered the possible outcomes from R.22-04-003 in this proceeding?

A162. No. The Commission recently issued the OIR for the Water System Acquisition Rulemaking R.22-04-003 on April 18, 2022. The OIR explains that the Commission intends to "examine the existing framework to develop an updated framework for water utility acquisitions." This is a key topic for California American Water, which has been and currently is involved in many water system acquisition proceedings before the Commission as a party. While the OIR includes a staff white paper summarizing

1 potential issues that the Commission may ultimately consider in the Water System  
2 Acquisition Rulemaking, the Commission has not yet issued a scoping memo for that  
3 proceeding and it is too early to determine what policy changes may arise out of that  
4 rulemaking. Consequently, California American Water is currently unable predict what  
5 outcomes coming out of the Water System Acquisition Rulemaking may be applied to the  
6 Company and other water utilities. Therefore, no added costs or programs are directly  
7 requested in this case in response to the Water System Acquisition Rulemaking at this  
8 time.

## 9 10 **VI. COORDINATION WITH RATE CONSULTANT**

### 11 **A. M-Cubed**

12 Q163. California American Water hired economic and public policy consultants, M-Cubed, to  
13 develop the: (1) sales forecast, (2) rate design and cost allocation scenarios, and (3)  
14 provide calculations of the Commission's affordability metrics. What were the reasons?

15 A163. M-Cubed has expertise addressing rate design issues for energy, municipal and investor-  
16 owned water utilities across the State and California American Water wanted to apply  
17 this perspective and breadth of experience to analyze our cost allocation and rate design  
18 in a comprehensive manner. M-Cubed also has provided testimony on California  
19 American Water's sales forecast based on customer class econometric models. In the  
20 LIRA Phase 1 decision, D.20-08-047, Ordering Paragraph #1, the Commission required  
21 California American Water to addresses six impacts associated with its sales forecast. In  
22 the balanced rates decision, D.16-12-026, Ordering Paragraph #2, the Commission  
23 required Class A and B water utilities to propose improved forecast methodologies in  
24 their next GRCs that consider consumption trends during and following the drought and  
25 other factors affecting consumption. M-Cubed addressed these issues and others as part  
26 of its methodology and analyses. M-Cubed analyzed the consumption data in making  
27 recommendations around the ACAM in Special Request #3.  
28

1 Q164. What areas of the rate design did M-Cubed focus on?

2 A164. The testimony of M-Cubed analyzes cost allocation and rate design scenarios in a  
3 sequential fashion to look at the impact of various changes. M-Cubed uses current rates  
4 and revenue to develop its work. David Mitchell's testimony is separated between  
5 Section II and Attachment 2, development of class-level sales forecasts, Section III and  
6 Attachment 3, development of cost allocation and rate design simulations. Section IV  
7 and Attachment 4 provide calculations on the various affordability metrics. Specifically,  
8 Attachment 3 to Mr. Mitchell's testimony includes five "technical memorandum"  
9 ("TMs") that present results of simulations of alternative class-level rate designs for  
10 California American Water's Northern, Central and Southern Divisions.<sup>66</sup>

11  
12 Q165. Please discuss the overall approach that M-Cubed used to develop the scenarios based on  
13 the stated principles.

14 A165. As explained in Attachment 3 to Mr. Mitchell's testimony, M-Cubed simulated modeling  
15 evaluated each rate design scenario to determine its effect on water use, revenue, water  
16 bills, low/middle/high use customer and CAP customers. As expected, the modeling  
17 demonstrated that the goals of affordability, conservation and equity can tend to be  
18 inversely related. For example, if the goal is a very low meter charge to support  
19 affordability, it tends to work against stabilizing recovery of the revenue requirement  
20 (equity). However, California American Water had M-Cubed look at other possible  
21 misconceptions. For example, a higher meter charge may not necessarily work against  
22 affordability if the variability in low-income bills is great. Customers may prefer to have  
23 more stability and predictability in their monthly bills. The goal is to provide the basic  
24 necessities of indoor water use at an affordable and predictable price that still provides  
25 the right conservation incentives.

26  
27 Q166. Does this complete your testimony?

28 <sup>66</sup> See the Direct Testimony of David Mitchell, Attachment 3.

1 A166. Yes, it does.

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# ATTACHMENT 1

**Direct Testimony of Jeffrey T. Linam  
ATTACHMENT 1**

**(Effect of ACAM on Historical WRAM Balance – Monterey District  
Pages 18-19, Linam Rebuttal Testimony A.15-07-019 Monterey Rate Design  
Proceeding)**

1 associated with the MPWSP have yet to be felt by customers. If ORA is so  
2 concerned about reducing rates when continued conservation is so important,  
3 why do they argue to continue the suspension of the 2013 and 2014  
4 WRAM/MCBA surcharges during the historic drought? If they were truly  
5 concerned about the right price signals, in my opinion, they would argue to  
6 reinstitute the surcharges, subject to refund.

7  
8 Q19. ORA argues that it is speculative to assume that the annual consumption true up  
9 pilot program would lower rates by shortening the period that accounts accrue  
10 interest. Do you agree with ORA's position?

11 A19. No. Table 1 below, provides an analysis of what the cumulative under-collected  
12 net WRAM/MCBA balances would have been if the annual consumption true up  
13 pilot program had been implemented at the same time that the current  
14 WRAM/MCBA mechanism was implemented. The table shows the actual under-  
15 collected balances and the balances that would have resulted if the pilot program  
16 had been in operation and the difference. The pilot program would have reduced  
17 the net under-collection by \$10.3 million for the years 2010-2015 or by 20%.  
18 This analysis provides evidence of a correlation between more frequent  
19 consumption adjustments and lower WRAM balances and results in a reduced or  
20 slower accrual of WRAM balances under this mechanism. But it also  
21 demonstrates the importance of the collective rate design changes proposed in  
22 this proceeding. Increasing the customer charge, elimination of the allotment  
23 system, slight narrowing of the tier differential between tier 1 and 5, establishing  
24 rates based on 2014 or more recent demand, applying future WRAM surcharges  
25 to all units of water and implementation of an annual consumption true up  
26 mechanisms are all needed collectively to fix the rate design and prevent future  
27 under-collected WRAM balances  
28



Table 1: Effect of the Annual Consumption True Up Program on the WRAM (\$ in thousands)

Year	Authorized Quantity Revenues	Recorded Quantity Revenues <sup>(1)</sup>	Difference between Authorized & Recorded <sup>(2)</sup>	Re-calculated Revenues with Rate Design Adjustment	Difference between Authorized & Adjusted Rate Revenues <sup>(2)</sup>	Impact of Adjusted Consumption
2010 <sup>(3)</sup>	\$ 33,985	\$ 22,457	\$ (11,527)	\$ 23,727	\$ (10,257)	\$ 1,270
2011	\$ 36,410	\$ 23,254	\$ (13,155)	\$ 27,429	\$ (8,980)	\$ 4,175
2012	\$ 42,098	\$ 32,768	\$ (9,330)	\$ 35,013	\$ (7,085)	\$ 2,245
2013	\$ 42,257	\$ 30,952	\$ (11,305)	\$ 30,882	\$ (11,375)	\$ (70)
2014	\$ 41,012	\$ 33,142	\$ (7,869)	\$ 34,452	\$ (6,560)	\$ 1,310
2015 <sup>(4)</sup>	\$ 43,551	\$ 29,202	\$ (14,349)	\$ 30,554	\$ (12,997)	\$ 1,352

(1) Recorded quantity revenues exclude built in surcharges.

(2) Positive number reflects overcollection, negative undercollection

(3) New rates became effective in February 2010. Therefore, data excludes January 2010 consistent with the approved 2010 WRAM filing.

(4) Results are considered preliminary pending review and submission of Advice Letter and could change

Table 1

ORA's other comments, with respect to alleged mismanagement of the residential allotment process, are false and refuted separately in the rebuttal testimony of California American Water witnesses Dave Stephenson, Eric Sabolsice and Sherrene Chew and Ann Bui from Black & Veatch.

Q20. ORA does not believe that the annual consumption true up pilot program would help to ensure lower financing costs for the MPWSP. Do you agree?

A20. No. ORA's comments about the credit rating of American Water demonstrate a surprising lack of understanding of the MPWSP financing plan. MPWMD General Manager David Stoldt, in his supplemental testimony, makes it clear that "Successful financing of the new water supply project will benefit from more stable rates"<sup>17</sup> and that the annual true-up approach "seems like a simple and straightforward way of adjusting rates prospectively based on the most current

<sup>17</sup> February 16, 2016 Supplemental Testimony of David Stoldt, page 5.

# ATTACHMENT 2

***Resolution Supporting Consideration of Regulatory Policies Deemed as “Best Practices”***

**WHEREAS,** A number of innovative regulatory policies and mechanisms have been implemented by public utility commissions throughout the United States which have contributed to the ability of the water industry to effectively meet water quality and infrastructure challenges; *and*

**WHEREAS,** The capacity of such policies and mechanism to facilitate resolution of these challenges in appropriate circumstances supports identification of such policies and mechanisms as “best practices”; *and*

**WHEREAS,** During a recent educational dialogue, the “2005 NAWC Water Policy Forum,” held among representatives from the water industry, State economic regulators, and State and federal drinking water program administrators, participants discussed (consensus was not sought nor determined) and identified over 30 innovative policies and mechanisms that have been summarized in a report of the Forum to be available on the website of the Committee on Water at [www.naruc.org](http://www.naruc.org); *and*

**WHEREAS,** As public utility commissions continue to grapple with finding solutions to meet the myriad water and wastewater industry challenges, the Committee on Water hereby acknowledges the Forum’s *Summary Report* as a starting point in a commission’s review of available and proven regulatory mechanisms whenever additional regulatory policies and mechanisms are being considered; *and*

**WHEREAS,** To meet the challenges of the water and wastewater industry which may face a combined capital investment requirement nearing one trillion dollars over a 20-year period, the following policies and mechanisms were identified to help ensure sustainable practices in promoting needed capital investment and cost-effective rates: a) the use of prospectively relevant test years; b) the distribution system improvement charge; c) construction work in progress; d) pass-through adjustments; e) staff-assisted rate cases; f) consolidation to achieve economies of scale; g) acquisition adjustment policies to promote consolidation and elimination of non-viable systems; h) a streamlined rate case process; i) mediation and settlement procedures; j) defined timeframes for rate cases; k) integrated water resource management; l) a fair return on capital investment; *and* m) improved communications with ratepayers and stakeholders; *and*

**WHEREAS,** Due to the massive capital investment required to meet current and future water quality and infrastructure requirements, adequately adjusting allowed equity returns to recognize industry risk in order to provide a fair return on invested capital was recognized as crucial; *and*

**WHEREAS,** In light of the possibility that rate increases necessary to remediate aging infrastructure to comply with increasing water quality standards could adversely affect the affordability of water service to some customers, the following were identified as best practices to address these concerns: a) rate case phase-ins; b) innovative payment arrangements; c) allowing the consolidation of rates (“Single Tariff Pricing”) of a multi-divisional water utility to spread capital costs over a larger base of customers; *and* d) targeted customer assistance programs; *and*

**WHEREAS,** Small water company viability issues continue to be a challenge for regulators, drinking water program administrators and the water industry; best practices identified by Forum participants include: a) stakeholder collaboration; b) a memoranda of understanding among relevant

State agencies and health departments; c) condemnation and receivership authority; and d) capacity development planning; *and*

**WHEREAS**, The U.S. Environmental Protection Agency’s “Four-Pillar Approach” was discussed as yet another best practice essential for water and wastewater systems to sustain a robust and sustainable infrastructure to comprehensively ensure safe drinking water and clean wastewater, including: a) better management at the local or facility level; b) full-cost pricing; c) water efficiency or water conservation; *and* d) adopting the watershed approach, all of which economic regulators can help promote; *and*

**WHEREAS**, State drinking water program administrators emphasized the following mechanisms which Forum participants identified as best practices: a) active and effective security programs; b) interagency coordination to assist with new water quality regulation development and implementation, such as a memorandum of understanding; c) expanded technical assistance for small water systems; d) data system modernization to improve data reliability; e) effective administration and oversight of the Drinking Water State Revolving Fund to maximize infrastructure remediation, along with permitting investor owned water companies access in all States; f) the move from source water assessment to actual protection; *and* g) providing State drinking water programs with adequate resources to carry out their mandates; *now therefore be it*

**RESOLVED**, That the National Association of Regulatory Utility Commissioners (NARUC), convened in its July 2005 Summer Meetings in Austin, Texas, conceptually supports review and consideration of the innovative regulatory policies and practices identified herein as “best practices;” *and be it further*

**RESOLVED**, That NARUC recommends that economic regulators consider and adopt as many as appropriate of the regulatory mechanisms identified herein as best practices; *and be it further*

**RESOLVED**, That the Committee on Water stands ready to assist economic regulators with implementation of any of the best practices set forth within this Resolution.

---

*Sponsored by the Committee on Water*

*Adopted by the NARUC Board of Directors July 27, 2005*

# ATTACHMENT 3

	Monterey Service Area					
Year	Meter	Average	Current Bill	% Increase	\$ Increase	Total Bill
	Size	(CGL)				
Jan 2023 <sup>(1)(2)</sup>	5/8-inch	38.44	\$120.19	2.37%	\$2.85	\$123.04
July 2024 <sup>(3)</sup>	5/8-inch	38.44	\$123.04	9.76%	\$12.01	\$135.05
Jan 2025 <sup>(4)</sup>	5/8-inch	38.44	\$135.05	3.12%	\$4.22	\$139.27
Sept 2025 <sup>(5)</sup>	5/8-inch	38.44	\$139.27	5.86%	\$8.17	\$147.43

- (1) Current Bill reflects 2021 Test Year Rates Authorized in D.21-11-018
- (2) Includes revenue requirement increases for the Parallel Pipeline and Carmel Valley Pump Station (Approximately Jan 2023)
- (3) Includes increase in purchased water surcharge (Approximately July 2024)
- (4) Includes revenue requirement increases for Extraction Wells 1&2 Chemical Treatment Facility (Approximately Jan 2025)
- (5) Includes revenue requirement increases for Extraction Wells 3&4 (Approximately Sept 2025)